Like many Caribbean islands, a major challenge facing the three U.S. Virgin Islands is the lack of fresh water. Inhabitants must rely on rainfall stored in cisterns as a primary source of fresh water. In times of severe drought, water must be brought in by barges from Puerto Rico – a very costly procedure. The territorial government's desalinization plants, which convert salt water into fresh water, help to offset the perpetual shortage; however, these plants are inadequate for the demand, and barely produce enough to supply the needs of residents and the minimal industry on the islands. The cost of an inadequate water supply is high and has an impact on all parts of the community. It is a deterrent to the development of industry on the islands and a major operating expense of the tourist business. The government is making strong efforts to develop both short- and long-term solutions to ease the ongoing water shortage.

Because of the limited space for agriculture, the hilly terrain and the high cost of real estate, the islands are unable to produce sufficient food to satisfy the needs of the populace. Farm acreage has declined significantly on these islands since 1917, as agricultural land has been converted to shopping centers, housing developments, and other alternative uses. Consequently, most of the goods consumed in the territory are imported from the United States. These include food, clothing, materials, supplies, medicine and so forth. As a result, the cost of living in the Virgin Islands is significantly higher than in most places in the 50 states.

Economic and Demographic Review

Although there is no direct correlation between the size of an area's population and its specific level of transient visitation, historical and projected population trends often reflect the economic climate of a locale. For hotels located in the Caribbean, population statistics are also indicative of the available labor force. The following table illustrates historical population trends for the U.S. Virgin Islands.

FIGURE 3-4 RESIDENT POPULATION

U.S. Virgin Islands Annual Economic Indicators

BUREAU OF ECONOMIC RESEARCH - OFFICE OF THE GOVERNOR

1050 NORRE GADE #5 - CHARLOTTE AMALIE, U.S. VIRGIN ISLANDS 00802 - (340) 714-1700 www.usviber.org

	1980	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Annual Percent Change 5-Year	Annual Percent Change 1-Year
POPULATION, LABOR FORCE, STUDENTS AND GRADUATES															
Resident population	96,569	101,809	108,612	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	113,649	[illegible]	115,352	[illegible]	[illegible]	[illegible]	[illegible]
St. Croix	49,725	50,139	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
St. Thomas/St. John	46,844	51,670	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	57,962	53,304	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
St. Thomas	44,372	48,166	[illegible]	[illegible]	[illegible]	[illegible]	52,528	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
St. John	2,472	3,504	4,197	4,234	[illegible]	[illegible]	[illegible]	4,307	[illegible]	4,414	[illegible]	[illegible]	4,170	[illegible]	[illegible]
Civilian labor force	45,131	48,368	[illegible]	[illegible]	[illegible]	[illegible]	50,066	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Civilian employment	0	46,480	44,100	[illegible]	[illegible]	[illegible]	[illegible]	47,101	48,640	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Unemployment rate (percent)	6.0	2.8	6.4	[illegible]	[illegible]	9.4	[illegible]	[illegible]	6.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
K-12 school enrollment	32,365	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21,266	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-
High school graduates	[illegible]	1,314	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	[illegible]	[illegible]
U.V.I. graduates	[illegible]	219	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	314	[illegible]	[illegible]	[illegible]	[illegible]

The economy of the U.S. Virgin Islands is heavily dependent upon tourism, which is the major industry in the region. The dominance of tourism is dictated by two major factors: the lack of natural resources necessary to support manufacturing or other industries, and the suitability of the islands (including the climate, location, topography, and natural beauty) as a destination resort area. The following breakdown of economic indicators provides a profile of the economy of the US Virgin Islands.

FIGURE 3-1 USVI - ECONOMIC INDICATORS

FISCAL YEAR ECONOMIC INDICATORS

United States Virgin Islands

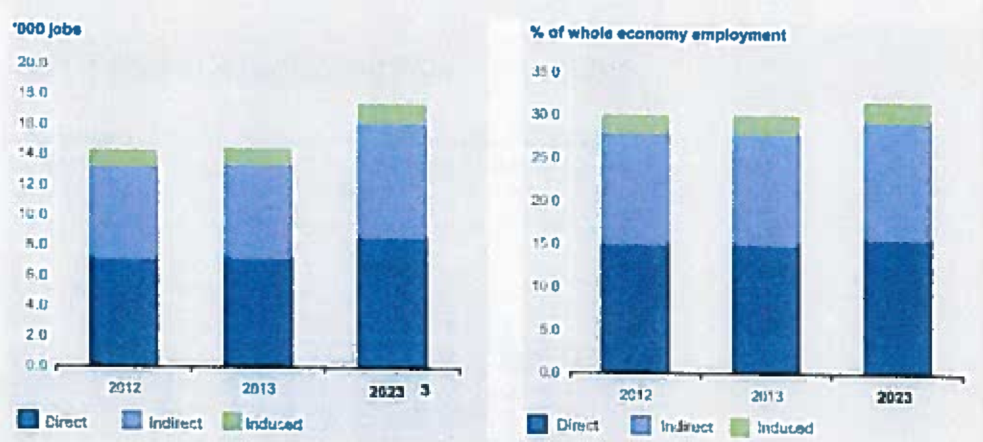
2011 & 2012: 1st 2nd Quarter and Half-Year Percent Annual Change

	1st QTR			2nd QTR			6 MONTHS		
Series	2011	2012	% Annual Change	2011	2012	% Annual Change	2011	2012	% Annual Change
Labor Force	51,386	50,339	-2.0	51,185	46,775	-8.6	51,286	50,624	-1.3
Civilian employed	47,108	45,824	-2.7	46,775	46,415	-0.8	46,941	46,119	-1.8
Civilian unemployed	4,278	4,515	5.5	4,411	4,487	1.7	4,344	4,501	3.6
Unemployment rate (%)	8.3	9.0	0.7	8.6	8.8	0.2	8.5	8.9	0.4
Total Nonfarm	43,923	42,841	-2.5	43,795	43,396	-0.9	43,859	43,119	-1.7
Total Private	30,898	30,844	-0.2	31,172	31,653	1.5	31,035	31,249	0.7
Production Sectors	4,158	4,054	-2.3	4,148	4,132	-0.4	4,149	4,093	-1.4
Natural Resources & Construction	2,034	2,003	-1.5	2,050	2,000	-2.4	2,042	2,002	-2.0
Manufacturing	2,116	2,051	-3.1	2,093	2,131	1.8	2,107	2,091	-0.8
Service Sectors	39,773	38,787	-2.5	39,647	39,264	-1.0	39,710	39,026	-1.7
Trade, Transportation & Utilities	8,194	8,453	3.2	8,200	8,672	5.8	8,197	8,564	4.5
Wholesale Trade	651	667	2.5	651	680	4.4	651	673	3.4
Retail Trade	6,033	6,255	3.7	6,037	6,358	5.3	6,035	6,307	4.5
Transp., Warehousing, Utilities	1,510	1,533	1.5	1,512	1,635	8.1	1,511	1,584	4.8
Information	788	811	2.9	792	809	2.1	786	810	3.1
Financial Activities	2,352	2,377	1.1	2,364	2,381	0.7	2,358	2,379	0.9
Professional & Business Services	3,444	3,482	1.1	3,446	3,639	5.6	3,445	3,560	3.3
Education and Health	2,474	2,485	0.4	2,475	2,565	3.6	2,475	2,525	2.0
Leisure & Hospitality	7,234	7,324	1.2	7,433	7,574	1.9	7,333	7,447	1.6
Arts and Entertainment	912	868	-4.8	913	800	-12.0	913	834	-8.7
Accommodation & Food	6,322	6,432	2.1	6,514	6,774	4.0	6,418	6,613	3.0
Accommodation	3,534	3,603	2.0	3,718	3,804	2.3	3,626	3,704	2.1
Food Services & Drink	2,788	2,849	2.2	2,796	2,970	6.2	2,792	2,910	4.2
Other Services	2,278	1,869	-18.1	2,313	1,881	-18.7	2,293	1,871	-18.4
Government	13,024	11,997	-7.9	12,624	11,743	-7.0	12,824	11,870	-7.4
Federal	962	962	0.0	966	967	0.1	964	965	0.1
Local	12,062	11,034	-8.5	11,659	10,777	-7.6	11,860	10,905	-8.1
General fund revenues ($1,000)	136,632	135,143	-0.7	152,511	155,369	2.5	286,577	290,449	1.5
Individual	78,923	73,085	-7.4	73,607	69,573	-4.7	152,139	142,657	-6.2
Corporate	7,289	10,796	48.1	18,447	11,864	-35.7	24,747	22,660	-8.4
Real Property	14,648	12,927	-11.7	16,755	25,878	60.4	31,483	39,805	26.4
Trade and Excise	4,624	4,871	4.4	6,147	5,998	-2.4	11,781	11,869	0.7
Gross Receipts	29,549	32,463	9.9	37,155	40,995	10.3	66,704	73,458	10.1
Hotel Room	16,448	15,762	-4.2	73,007	69,572	-4.7	7,300	8,068	10.5
Visitor Arrivals	691,844	724,353	4.7	940,056	966,423	2.8	1,631,900	1,690,756	3.6
Air	149,762	163,358	9.2	205,714	226,282	10.0	355,476	389,840	9.7
Cruise	542,082	560,793	3.5	734,342	740,121	0.8	1,276,424	1,300,914	1.9

The preceding table illustrates labor force that is dependent on four major industries. Local territorial government is the largest employer in the market area, followed by services (professional and business, education, healthcare, etc.), leisure and hospitality, and retail trade. While "leisure and hospitality" represents the direct employment that supports the travel and tourism industry, a variety of jobs are indirectly attributed to this industry.

Unemployment in the USVI exhibited fluctuations but remained stable on an annual average compounded basis over the decade.

FIGURE 3-2 UNEMPLOYMENT STATISTICS



The Virgin Islands economic performance, as tracked by employment indicators, was mixed for first half of fiscal year 2013 compared to the same period a year earlier. Industries including tourism, trade, utilities, professional and business, food and services, and information showed growth over the past six months. Other sectors of the economy namely construction, manufacturing, arts and entertainment, and government waned.

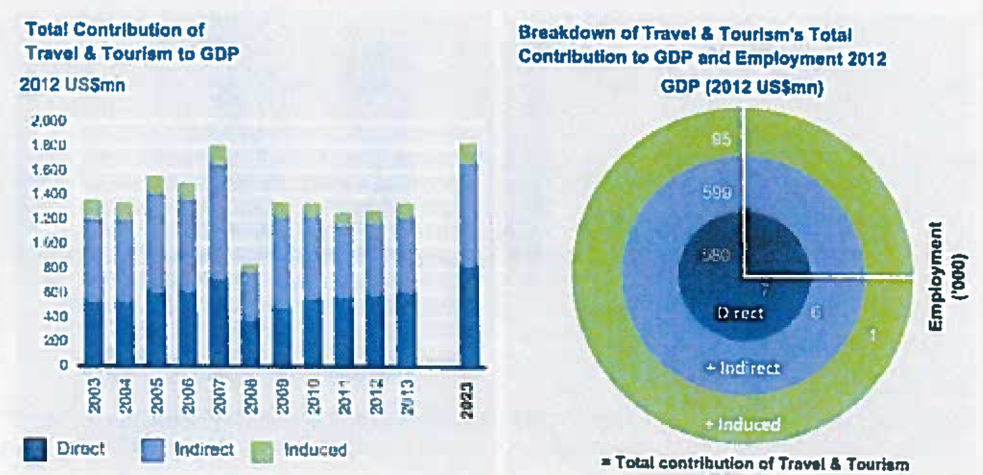
Government; trade, transportation and utilities; and leisure and hospitality are the industries with the largest number of jobs. These three sectors account for 62% of all jobs. Professional and business services; construction; and financial activities account for 8%, 5% and 6%, respectively. Manufacturing and educational and health services account for 5% and 6% each, while other services and information account for the remainder of the jobs.

For the first half of this fiscal year 2013, 46,119 persons were employed - 20,371 on St. Croix and 25,748 on St. Thomas and St. John. This is 1.8% lower than the 46,941 persons employed for the corresponding period last fiscal year. The Territory's unemployment rate has steadily increased since 2009 from a high of 7.0% to 9.5%. The rate has remained steady at 8.9% for the first six months of the fiscal year. The rate for St. Croix is 9.8%, while the rate for St. Thomas and St. John is 8.2%.

Tourism

The travel and tourism industry plays an undeniably-important role in the local economy. Also contributing to the islands' success as a tourist destination are the U.S. Customs regulations, which permit U.S. tourists to double the value of their purchases in the Virgin Islands, compared to other Caribbean islands.

FIGURE 3-3 CONTRIBUTION OF TRAVEL & TOURSIM TO GDP

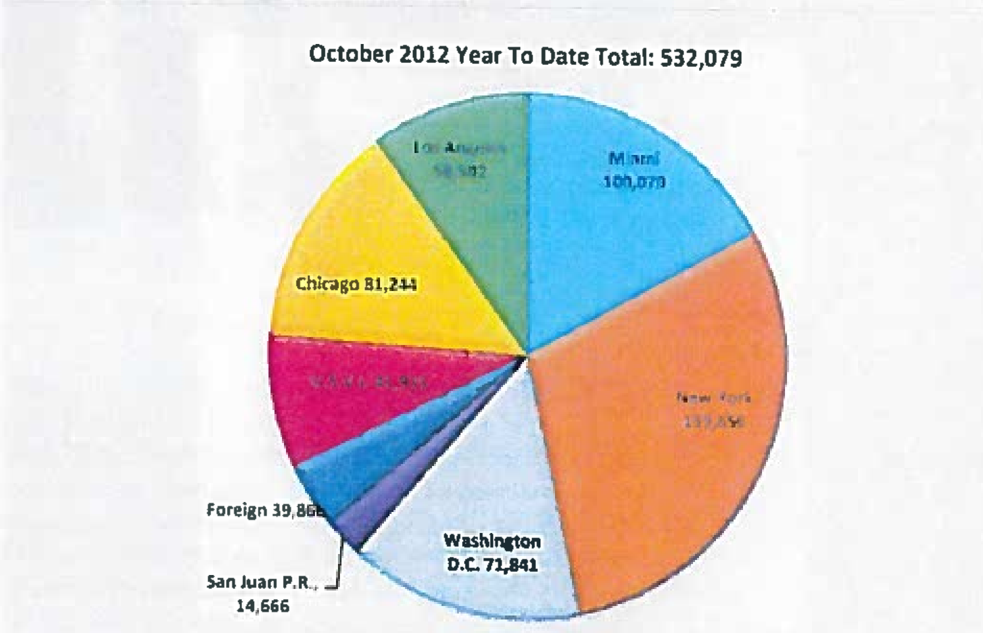


The number of tourists has grown at a moderate annual average compounded rate of 1.5%. In 1999 and 2000, the tourist count posted strong annual gains of 14.6% and 12.8%, respectively; however, this growth was followed by moderate decreases in 2001 and 2002, due to the slowdown in the U.S. economy, as well as the negative impact of September 11th on the U.S. travel. Thereafter, the number of tourists at USVI increased, and peaked in 2007. Decreases in 2008-2009 can be attributed to the global economic recession.

Total visitation to the USVI increased at an annual average rate of 1.4% from 1999 to 2013. The most significant gain has been exhibited by the air excursionists, at 9.2% annual growth (past 5-years). According to the representatives at the U.S. Virgin Islands Hotel & Tourism Association, though total visitation to St. John has slowed somewhat due to the past economic recession, strengths of the islands as a destination, including the consistently strong air lift, have shielded the islands from dramatic decreases in tourism activities.

The following figure further illustrates the breakdown of visitation (based on hotel registrations) in 2012 (YTD October). Year-to-date 2013 data was not available, though the source markets have not significantly changed.

FIGURE 3-4 VISITOR BREAKDOWN



Visitor Expenditures

The growth in the number of visitors and their dollars spent can be tied directly to the growth in lodging demand in the area, as well as the growth in food, beverage and retail sales in the area.

A total of 2,071,254 visitors arrived in the Territory during the ten months of 2012, a 1.8% increase or 37,211 more visitors than the corresponding period in 2011. There were 613,517 air visitors or 10.5% more than the 555,273 air visitors for the same ten-month period in 2011. October 2012 year-to-date cruise passengers arrivals were 1,475,737 versus 1,553,192 one year earlier. There were 501 cruise ship calls during this period, 5.8% less than last year.

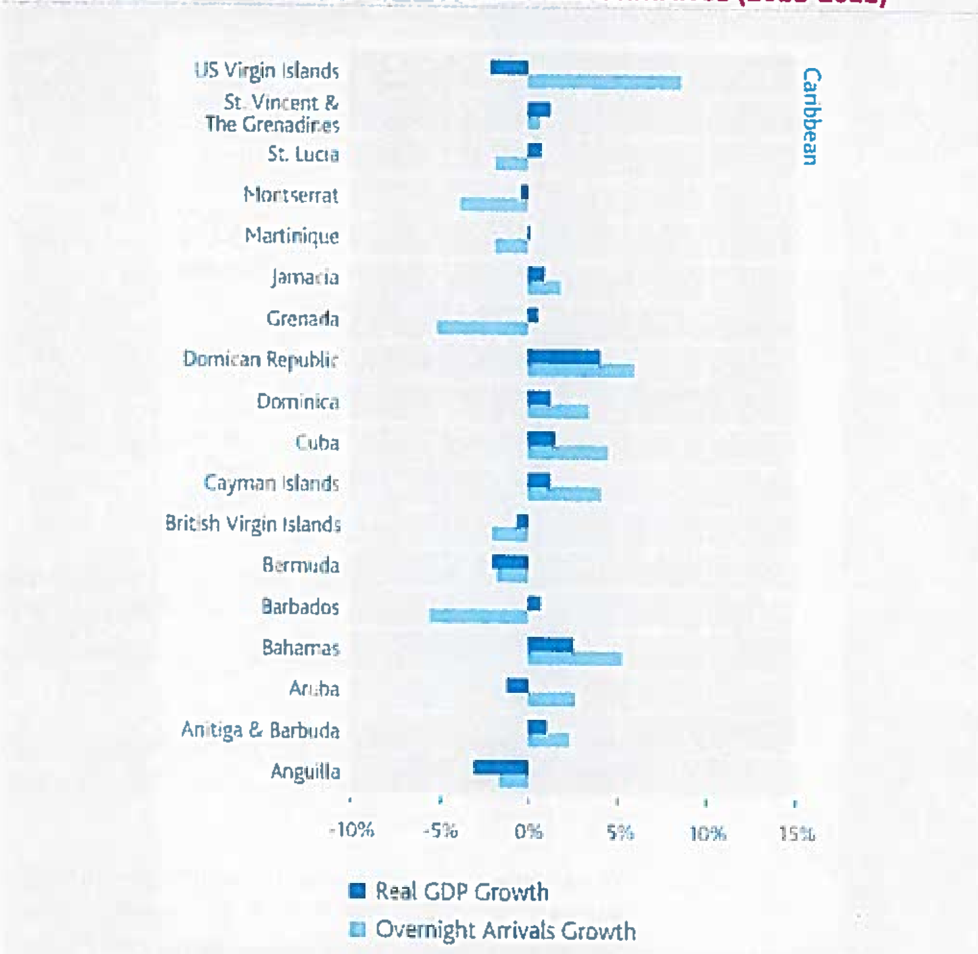
FIGURE 3-5 VISITOR ARRIVALS

The leisure and hospitality sector, which is comprised of hotels and other lodging places, restaurants and food services, and arts and entertainment, accounts for 17% of total employment. For the first six months of fiscal year 2013, the number of jobs averaged 7,447 and a year-on-year increase of 1.6%. An upturn in the tourism and hospitality industry within the past several months, specifically in the hotel accommodation, has improved this sector's performance. However, this sector is expected to decline in the latter part of fiscal year 2013 as the sector's seasonal jobs are lost due to annual temporary closing of hotels and other accommodation establishments.

Data provided by the IMF and the Caribbean Tourism Organization, provide an analysis of the change in volume of international tourist arrivals and variance in GDP performance of selected countries within the region between 2011 and 2012. Studies have shown that there is a direct correlation between international tourist arrivals and GDP growth. This is shown in the following table.

In the Caribbean, which is an established leisure tourist destination and where tourism is often the principal contributor to GDP, the data indicates mixed results between 2011 and 2012.

FIGURE 3-6 TOURISM AND ECONOMIC PERFORMANCE (2011-2012)



Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

The following table illustrates historical operating statistics for the USVI (combined St. Thomas, St. John and St. Croix).

FIGURE 3-7 USVI - AIRPORT STATISTICS

Year	Passenger Traffic	Percent Change*	Percent Change**
1998	523,406	—	—
1999	560,134	7.0 %	7.0 %
2000	629,800	12.4	9.7
2001	609,646	(3.2)	5.2
2002	598,908	(1.8)	3.4
2003	620,815	3.7	3.5
2004	658,637	6.1	3.9
2005	697,033	5.8	4.2
2006	671,361	(3.7)	3.2
2007	693,373	3.3	3.2
2008	678,140	(2.2)	2.6
2009	664,248	(2.0)	2.2
2010	691,558	4.1	2.3
2011	678,961	(1.8)	2.0
2012	737,650	8.6	2.5

*Annual average compounded percentage change from the previous year
**Annual average compounded percentage change from first year of data

Source: Cyril E. King Airport, St. Thomas

These facilities recorded 737,650 passengers in 2012. The change in passenger traffic between 2011 and 2012 was 8.6%. The average annual change during the period shown was 2.5%.

The Virgin Islands Port Authority operates the Cyril E. King Airport on St. Thomas and the Alexander Hamilton Airport on St. Croix. Prior to the last decade, the terminal building at Cyril E. King Airport had been far from modern in appearance, facilities, and services. Moreover, due to the situation of the airfield on a relatively small plateau, surrounded by hills on two sides and with the ocean on the third side, access to this facility had been relatively difficult. The small size of the plateau had resulted in a relatively short runway, limiting the size of the planes that had landed at the airport. The airport underwent a runway expansion in 1985; and in 1990, a new terminal was constructed. Following such expansions, accessibility to the U.S.V.I improved significantly.

The following table illustrates historical trends in the number of visitors to the islands (via air transportation). Years in which there was a decline have been highlighted. St. Thomas and St. John are served by the Cyril E. King International Airport which is located proximate to the downtown Charlotte Amalie area (those visiting St. John will take a ferry over to the island after landing in St. Thomas), while St. Croix is served by Henry Rohlsen International Airport, located six miles southwest of the city of Christiansted.

FIGURE 3-8 HISTORICAL AIR VISITATION STATISTICS AND TRENDS

	St. Thomas / St. John	Percent Change	St. Croix	Percent Change	U.S. Virgin Islands Total	Percent Change
1994	536,755	-	140,261	-	677,016	-
1995	431,121	-19.7 %	130,943	-6.6 %	562,064	-17.0 %
1996	309,763	-28.1	152,394	16.4	462,157	-17.8
1997	367,744	18.7	140,781	-7.6	508,525	10.0
1998	388,241	5.6	135,165	-4.0	523,406	2.9
1999	427,932	10.2	132,202	-2.2	560,134	7.0
2000	482,441	12.7	147,359	11.5	629,800	12.4
2001	469,423	-2.7	140,223	-4.8	609,646	-3.2
2002	472,900	0.7	126,008	-10.1	598,908	-1.8
2003	505,894	7.0	114,921	-8.8	620,815	3.7
2004	526,400	4.1	132,237	15.1	658,637	6.1
2005	545,260	3.6	151,773	14.8	697,033	5.8
2006	533,419	-2.2	137,942	-9.1	671,361	-3.7
2007	561,321	5.2	132,052	-4.3	693,373	3.3
2008	558,412	-0.5	119,728	-9.3	678,140	-2.2
2009	533,310	-4.5	130,938	9.4	664,248	-2.0
2010	543,002	1.8	148,556	13.5	691,558	4.1
2011	531,907	-2.0	147,054	-1.0	678,961	-1.8
2012	NAV		NAV		737,650	8.6
Compound Average Annual Growth Rate (1994-2011)		-0.1 %		0.3 %		0.5 %
Compound Average Annual Growth Rate (2000-2011)		1.0		0.0		1.6
Compound Average Annual Growth Rate (2005-2011)		-0.5		-0.6		1.1

Source: U.S. Virgin Islands Bureau of Economic Research

Large declines in visitation during the calendar years of 1995 (a 19.7% decline from 1994 levels) and 1996 (a 28.1% decline from 1995 levels) to the islands of St. Thomas and St. John have made the growth achieved from 1997 through 2010 appear negligible (an average of over 3.0%) appear negligible. Declines in 1995 and 1996 can be primarily attributed to the destructive forces of Hurricanes Marilyn (1995) and Bertha (1996). On St. Thomas alone, Hurricane Marilyn, after destroying an estimated 80% of the island's homes and businesses (including the desalination plant), left approximately 10,000 people homeless, killed five people, and caused an estimated $1.5 billion in damages to the island's infrastructure. While the area was recovering from the damages of Hurricane Marilyn, Hurricane Bertha rolled through and damaged 1,415 homes, causing an estimated $7.5 million in damages to the island's infrastructure. In addition to the immediate damages caused by the storms, the then-dilapidated tourism infrastructure discouraged many travelers from going to the U.S. Virgin Islands. The islands are generally threatened by hurricanes from August through October, a constant factor that must be dealt with when trying to attract and accommodate tourism. Significant growth of 8.6% was recorded in 2012.

Regional Hotel Occupancy and Average Rates

As of the end of 2011, there were 47 hotels with 3,759 rooms in the USVI; this includes large resorts like the Marriott Frenchman's Reef, small inns, and even the Maho Bay Tent Camp. Separately, the USVI had a total of 1,130 condominium and timeshare units as of year-end 2011 that were rented out on a daily or weekly basis. It should be noted that this number reflects only those units registered with the government and excludes those used by the owners, and rented out on a casual or indirect basis. These units typically operate at even lower occupancy levels due to the lack of a cohesive market plan and owner usage, although the addition of professional management companies have made the condominiums at Point Pleasant, Sapphire Beach Resort, and Secret Harbor more competitive in recent years.

The lodging accommodation occupancy rate for the entire territory decreased from 64.4% in 2007 to 57.1% in 2011, with declines in occupancy driven by a decrease in room night demand, especially in 2009. The 2009 decline in demand is attributed to the global recession. Minimal growth in 2010-2011 is attributed to the temporary closure of the Marriott Frenchman's Reef, the de-flagging of former Holiday Inn Windward Passage, and softness within the condominium market. In regards to St. Thomas and St. John's lodging occupancy (as St. Croix only represents roughly 25% of the territory's lodging supply), occupancy rates mimicked the territory-wide performance, decreasing from 67.7% in 2006 to 54.4% in 2011.

Based on the foregoing and discussions with people familiar with the local economy, it is estimated that the local economy will rebound in earnest during 2014, led by an uptick in the tourism sector, which appears to have been underway since 2010 following two years of declines. Overall, the USVI economy in general and the St. Thomas economy in particular appear to have weathered the global credit crisis and the U.S./worldwide economic recession favorably. In 2010, most economic indicators turned positive or are anticipated to be positive once the data is released, with the noted exception of the residential and construction sectors, which are still in a malaise following the recession. Year-to-date results for 2013 are mixed, as small increases in air visitors, decreases in cruise visitors, and decreases in occupied room nights offer little clarity; however, most hoteliers we spoke with were bullish on the future tourism prospects for the island.

GURE 3-9 HISTORICAL USVI ANNUAL TOURISM STATISTICS

U.S. Virgin Islands Annual Tourism Indicators

BUREAU OF ECONOMIC RESEARCH - OFFICE OF THE GOVERNOR

1050 NORRE GADE #5 - CHARLOTTE AMALIE, U.S VIRGIN ISLANDS 00802 - (340) 714-1700 www.usviber.org

	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Annual Percent Change 5 Year	1 Year
VISITOR ARRIVALS (thousands unless noted otherwise)															
Total visitors	1,811.5	2,395.8	2,497.4	2,336.6	2,392.6	2,619.2	2,601.9	2,570.7	2,606.3	2,431.2	2,246.5	2,550.5	2,685.0	1.2	5.4
Tourists	462.5	545.0	527.2	520.2	537.0	566.8	593.8	570.6	587.1	574.2	562.6	589.8	535.8	-1.1	-9.2
Excursionists	1,349.0	1,849.9	1,970.2	1,816.4	1,854.4	2,051.9	2,008.1	2,000.1	2,019.1	1,861.0	1,683.9	1,960.7	2,152.2	2.0	9.8
Air excursionists	229.4	81.8	78.8	77.7	82.0	87.2	95.6	96.6	101.2	104.0	101.6	101.8	143.2	9.2	40.7
Cruise passengers	1,119.6	1,768.4	1,891.4	1,738.7	1,773.9	1,964.7	1,912.5	1,903.5	1,917.9	1,757.1	1,582.3	1,858.9	2,009.0	1.6	8.1
Air visitors - tourists & excursionists	691.9	627.8	606.0	598.0	620.8	655.0	689.4	667.2	688.3	678.1	664.2	691.6	679.0	0.4	-1.8
Number of cruise ships	1,142	1,064	936	845	888	924	818	782	752	687	621	680	698	-2.0	2.6
St. Thomas/St. John															
Air visitors - tourists & excursionists	510.5	480.8	469.6	471.2	505.9	524.2	544.8	533.4	558.4	559.4	533.3	543.0	531.9	0.0	2.0
Cruise passengers	1,117.2	1,719.8	1,908.5	1,671.3	1,751.9	1,960.9	1,910.2	1,901.3	1,917.4	1,754.6	1,507.6	1,751.3	1,887.1	0.4	7.8
Number of cruise ships	1,140	940	869	812	878	922	814	776	750	685	593	631	643	-1.4	1.9
St. Croix															
Air visitors - tourists & excursionists	161.4	147.0	136.4	126.8	114.9	130.8	144.5	133.8	129.9	119.7	130.9	148.6	147.1	2.2	-1.0
Cruise passengers	13.1	232.4	217.4	120.5	23.0	25.0	54.5	35.2	7.4	2.5	105.1	149.4	152.2	798.1	5.9
Number of cruise ships	14	139	138	71	25	11	48	25	6	2	45	67	72	440.9	7.5
VISITOR EXPENDITURES (millions of dollars)															
Total expenditures	697.0	1,205.0	1,234.1	1,195.4	1,256.5	1,356.0	1,431.6	1,467.6	1,515.6	1,157.1	1,021.3	1,012.5	-	-	-
Tourists	498.8	725.9	722.1	723.5	765.4	789.8	863.6	883.2	929.6		687.4	678.2	-	-	-
Excursionists	198.2	480.0	512.0	471.9	491.1	566.3	567.8	584.3	582.9	470.7	333.9	334.3	-	-	-
Day trip by air	30.6	18.2	18.6	18.5	20.3	27.6	27.2	25.6	27.7	29.7	28.6	28.0	-	-	-
Cruise passengers	167.6	461.8	493.4	453.4	470.8	538.6	540.6	558.8	555.2	441.0	305.3	306.3	-	-	-
SELECTED TOURISM-RELATED EMPLOYMENT (number of jobs) [a]															
Total tourism related employment	8,640	8,660	9,080	8,910	8,370	8,723	8,695	8,593	8,778	8,683	8,038	8,301	8,460	0.2	2.0
Hotels and other lodging places	3,400	3,950	4,060	3,930	4,020	4,260	4,052	4,015	4,001	3,994	3,581	3,587	3,540	-2.4	-1.1
Gift shops	2,370	2,010	2,110	2,130	1,604	1,590	1,662	1,561	1,583	1,429	1,370	1,381	1,351	-2.8	-2.2
Eating and drinking places	2,350	2,100	2,290	2,300	2,256	2,360	2,455	2,511	2,523	2,547	2,493	2,793	2,959	3.5	5.9
Transportation by air	450	570	560	550	500	513	536	506	528	521	491	441	493	-0.2	11.3
Scenic and Sightseeing Transportation									143	149	103	97	117	-	20.6
SELECTED TOURISM-RELATED IMPORTS (millions of dollars) [b]															
Total tourism-related imports	141.0	309.9	235.9	211.5	248.7	202.3	597.2	561.3	421.0	438.2	305.2	349.6	361.0	-6.7	3.2
Alcoholic beverages	34.8	20.5	20.4	21.6	24.2	30.3	13.4	31.7	40.6	25.3	29.9	30.9	34.2	3.5	10.7
Cameras	3.8	2.5	1.6	1.3	3.2	5.7	5.1	5.1	1.7	0.7	1.1	1.6	1.8	-3.2	0.0
China	2.0	0.6	0.9	0.5	0.4	0.7	0.7	1.1	0.8	0.7	0.6	1.0	1.0	5.8	0.0
Crystal	3.1	0.4	0.5	0.7	0.5	0.4	0.4	0.5	0.1	0.5	0.2	0.2	0.1	42.0	50.0
Jewelry	72.1	157.5	179.5	150.6	192.7	135.6	511.0	480.9	339.4	374.8	242.4	274.2	278.2	7.9	1.5
Leather goods	4.2	0.3	2.1	0.5	1.6	1.2	2.2	3.7	1.5	2.5	2.8	1.8	2.5	4.4	38.9
Linen	2.2	1.1	1.3	1.1	1.5	2.0	1.5	1.4	0.8	1.5	1.6	1.5	2.1	17.0	40.0
Perfume	9.2	4.8	5.0	4.5	4.1	4.9	4.3	3.0	5.1	4.0	3.4	4.1	3.9	9.8	-4.9
Watches	11.3	22.2	18.6	27.5	20.8	21.5	38.3	33.7	29.0	24.9	23.7	34.3	37.2	4.1	8.5

Notes:

U.S.V.I. Bureau of Economic Research (BER) is the source for all data except the following: [a] U.S.V.I. Bureau of Labor Statistics; [b] Foreign Trade Division, U.S. Bureau of the Census; [c] St. Thomas/St. John - Jan Kommes; St. Croix - "UPDATE" Central Listing Service. [-] denotes data not available. Additional detail regarding methodology and definitions is available from BER upon request. Some figures may not add due to rounding. All data subject to revision.

FIGURE 3-10 HISTORICAL USVI ANNUAL TOURISM STATISTICS

	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Annual Percent Change 5-Year	Annual Percent Change 1-Year
HOTELS AND OTHER TOURIST ACCOMODATIONS															
Total rooms or units	4,520	5,008	5,051	5,138	5,035	4,959	4,761	4,812	4,757	4,657	4,948	5,008	4,889	0.3	-2.4
Number of hotels	60	40	48	47	46	48	47	47	46	47	46	47	47	0.1	0.0
Hotel rooms	3,487	3,947	3,957	4,036	3,985	3,906	3,687	3,739	3,678	3,782	3,809	3,878	3,759	0.1	-3.1
Condominium and other units	1,033	1,061	1,060	1,102	1,059	1,053	1,075	1,073	1,079	1,075	1,139	1,131	1,130	1.1	-0.1
Occupancy rate (percent)	62.5	57.7	56.2	56.0	57.2	61.3	65.8	60.1	64.4	60.0	54.2	57.1	57.1	-	-
St. Thomas/St. John:															
Total rooms or units	1,583	3,793	3,840	3,940	3,864	3,787	3,612	3,620	3,580	3,660	3,749	3,799	3,667	0.1	-3.5
Number of hotels	41	30	31	30	29	31	30	30	29	30	30	30	30	0.7	0.8
Hotel rooms	2,809	3,058	3,099	3,165	3,119	3,044	2,830	2,862	2,775	2,872	2,909	2,963	2,833	0.2	-4.4
Condominium and other units	774	745	741	775	745	743	782	758	805	797	840	836	834	1.2	-0.2
Occupancy rate (percent)	62.3	60.6	59.3	60.9	62.3	65.2	66.1	63.0	62.7	64.6	60.2	60.7	54.4	-	-
St. Croix:															
Total rooms or units	938	1,215	1,213	1,197	1,180	1,172	1,149	1,162	1,177	1,187	1,200	1,209	1,222	1.0	1.0
Number of hotels	18	19	16	17	17	17	17	17	17	17	16	17	17	0.3	4.0
Hotel rooms	679	859	888	868	866	872	856	877	903	910	900	915	926	1.1	1.3
Condominium and other units	259	356	325	329	314	299	291	285	275	278	300	295	296	0.8	0.3
Occupancy rate (percent)	65.1	48.6	40.0	42.8	40.5	49.2	56.7	51.2	54.2	46.2	38.6	45.8	45.1	-	-
HOTEL GUESTS BY ORIGIN (total number and percent shares of total)															
Total hotel guests (no.)	598,210	653,100	653,024	663,727	691,362	664,844	698,602	648,596	750,561	817,649	866,881	816,103	734,941	-1.5	9.9
U.S.V.I. residents (percent)	7.1	7.0	7.9	10.1	9.8	10.4	11.5	12.7	10.9	9.4	9.1	8.2	7.4	-	-
Non-residents (percent)	92.9	93.0	92.1	89.8	90.2	89.6	88.5	87.3	89.1	90.6	90.9	91.8	92.6	-	-
U.S. mainland sales regions	80.6	76.1	78.4	78.8	71.6	77.2	76.2	75.4	80.3	83.3	85.7	85.4	81.6	-	-
Chicago	13.3	11.4	12.4	11.7	11.9	12.0	11.4	11.7	12.5	12.6	13.2	13.9	14.0	-	-
Los Angeles	9.2	9.1	8.4	8.1	6.7	10.3	7.8	7.7	8.9	9.8	9.5	10.0	10.4	-	-
Miami	16.3	13.5	14.0	12.9	13.3	14.1	15.5	15.4	17.4	16.5	16.1	17.1	17.8	-	-
New York City	31.8	30.4	32.9	28.7	28.1	29.7	29.6	28.8	29.5	31.5	30.5	28.7	27.4	-	-
Washington, D.C.	9.9	10.7	10.7	9.5	9.8	11.2	11.9	11.9	12.2	12.6	14.4	14.7	14.3	-	-
Puerto Rico	0.0	3.7	3.3	3.4	3.4	3.7	3.1	3.1	2.7	2.6	2.3	2.3	2.6	-	-
Other West Indies	4.8	1.2	0.9	0.8	6.3	1.0	1.1	1.4	1.4	0.9	1.2	1.0	1.2	-	-
Canada	0.8	0.7	0.6	0.7	0.7	0.8	0.8	0.7	0.8	1.1	1.2	0.8	0.9	-	-
Europe	2.2	1.9	1.3	1.0	1.1	2.4	2.2	1.9	2.0	1.9	1.9	1.8	1.0	-	-
Central or South America	0.8	0.5	0.3	0.2	0.2	0.4	0.4	0.2	0.2	0.2	0.2	0.1	0.3	-	-
Other areas	3.8	9.0	7.6	13.0	12.2	4.1	4.3	4.6	1.7	0.5	0.4	0.3	0.7	-	-
REAL ESTATE [e]															
Number of homes sold	455	401	395	421	505	567	511	482	454	335	298	278	272	-10.4	-2.2
Average home sales price ($)	175,754	270,061	282,417	354,939	437,026	409,392	408,460	497,607	534,726	462,687	456,295	474,728	533,862	3.0	12.5
Number of condominium sales	276	401	293	369	485	551	538	470	298	266	192	151	162	-12.2	16.0
Average condominium sales price ($)	168,778	119,501	121,026	126,376	139,207	157,410	194,029	213,210	279,768	271,784	251,832	227,708	202,852	0.1	-10.9
St. Thomas/St. John:															
Number of homes sold	157	200	215	224	249	304	244	194	174	148	126	120	138	-6.0	15.0
Average home sales price ($)	236,048	317,265	365,579	408,219	546,485	509,579	649,055	677,653	782,938	560,986	591,904	586,214	684,213	1.7	16.7
Number of condominium sales	169	158	166	218	295	318	277	240	184	156	92	100	99	-4.1	[illegible]
Average condominium sales price ($)	171,341	112,742	117,210	133,415	144,333	164,495	234,233	260,142	294,969	311,654	263,059	244,013	198,075	-4.5	-18.8
St. Croix:															
Number of homes sold	298	192	180	197	256	263	267	288	280	187	172	158	134	-13.5	-15.2
Average home sales price ($)	143,957	231,167	181,335	280,244	350,557	302,278	301,674	367,948	304,266	385,665	350,953	355,536	370,024	0.8	2.4
Number of condominium sales	107	145	125	151	186	233	261	219	114	108	60	63	61	-14.4	0.0
Average condominium sales price ($)	164,731	126,880	126,155	116,186	132,613	120,440	151,361	166,881	246,346	218,382	234,619	178,433	210,361	7.7	17.8

U.S.V.I. BUREAU OF ECONOMIC RESEARCH

May 10, 2012

Major Business and Industry

The closure of the HOVENSA refinery will affect overall value of exports. The refinery accounted for 21% of Gross Territorial Product and 95% of the refined petroleum products exported to the U.S. Overall, the manufacturing sector will continue to see a loss of jobs within this sector. On the other hand, the rum industry is expected to strengthen with the production of Diageo rum that started in November 2011 and beginning in 2012, will produce Captain Morgan branded rum. Diageo has the capacity to produce 20 million proof gallons of rum annually. It is projected to return a gross of $100 million annually.

The manufacturing sector is continuing to hemorrhage jobs due to the January 2012 announcement by HOVENSA, L.L.C. ceasing refinery operations. The refinery officially closed on February 21, 2012 and HOVENSA proposes to turn the facility into a storage terminal that will employ approximately 100 workers. HOVENSA has agreed to allow the V.I. Water and Power Authority and St. Croix gasoline retailers to continue purchasing fuel supplies at a discounted rate through the end of 2012.

Construction has remained flat with only the public sector engaged in infrastructure projects. These projects include the $10 million University of the Virgin Islands St. Thomas Residence Halls, the $20 million Whispering Hills housing development, the $5 million Main Street Enhancement Project, the $5.4 million Rothschild Francis Square Revitalization, the $13 million UVI Research & Technology Park Campus Building, and the first phase $20 million Louis Brown Villas housing development both on St. Croix.

Cruise Ship Industry

During the 1980s and 1990s, cruise passenger arrivals experienced growth increasing at a rate greater than that of total visitor arrivals, due to an increase in passenger cruise ship arrivals in general, as well as an increased number of cruise ship arrivals. The annual average compounded change from 1999 through 2009 was 1.7%. Following marginal declines of cruise passenger arrivals in 2005 and 2006, cruise passenger arrivals increased by roundly 1.0% in 2007. Decreases in 2008 and 2009 can be attributed to the global economic recession.

On St. Thomas, the primary debarkation point for these passengers is at the deep-water pier in Charlotte Amalie. Because the island of St. John does not have facilities capable of accommodating a large cruise ship, visitors to St. John arriving by cruise ship must also disembark at Charlotte Amalie, and find boat or ferry transportation to the Island of St. John.

The following table (most recent available) identifies arrivals between October 2011 and 2012.

FIGURE 3-11 CRUISE PASSENGER ARRIVALS

CRUISE PASSENGER ARRIVALS, OCTOBER 2011 – OCTOBER 2012

Month	St. Thomas/ St. John			St. Croix			Total USVI		
	2011	2012	% chg	2011	2012	% chg	2011	2012	% chg
January	235,503	229,727	-2.5	29,427	21,166	-28.1	254,598	250,893	-1.5
February	211,606	229,916	8.7	23,083	20,438	-11.5	226,336	250,153	10.5
March	241,440	222,342	-7.9	20,536	19,779	-3.7	253,408	239,075	-5.7
April	173,844	188,647	8.5	19,639	16,787	-14.5	184,445	205,434	11.4
May	125,028	91,510	-26.8	4,595	0	-	129,623	91,510	-29.4
June	98,021	81,966	-16.4	4,900	0	-	102,921	81,966	-20.4
July	102,870	96,790	-5.9	4,925	0	-	107,795	96,790	-10.2
August	104,491	89,692	-14.2	4,843	0	-	109,334	89,692	-18.0
September	75,411	69,489	-7.9	4,325	0	-	79,736	69,489	-12.9
October	100,532	98,642	-1.9	4,464	2,093	-53.1	104,996	100,735	-4.1
November	199,832	-		15,153	-	-	214,985	-	-
December	218,518	-	-	22,296	-	-	240,814	-	-
Quarter:									
First	688,549	681,985	-1.0	73,046	61,383	-16.0	734,342	740,121	0.8
Second	396,893	362,123	-8.8	29,134	16,787	-42.4	416,989	378,910	-9.1
Third	282,772	255,971	-9.5	14,093	0	-	296,865	255,971	-13.8
Fourth	518,882	-	-	41,913	-	-	560,795	-	-
Total:	1,887,096	-	-	158,186	-	-	2,008,991	-	-

Boat service to St. John out of St. Thomas is accomplished either from the Red Hook Dock on the eastern end of the Island of St. Thomas or from downtown Charlotte Amalie. Caneel Bay Resort and the Westin St. John provide a private boat service for its guests between the resort and Charlotte Amalie or Red Hook.

St. Thomas has been the second-largest cruise port in the Caribbean for the past several years, with some days seeing as many as seven large ships in Charlotte Amalie harbor at a time. Virtually all of the major Caribbean cruise lines dock in St. Thomas, sailing out of New York, Virginia, and Florida, as well as from other U.S. East Coast ports and from the West Coast. While these types of visitors do not directly impact lodging activity in the area because the tourists generally sleep on board the ship, they do indirectly influence lodging demand – by returning to the islands on another trip, or perhaps, by reporting about the islands' attributes to friends and relatives.

Many Caribbean hoteliers argue that the luxury resort developments that have diluted the overall accommodations in the region in recent years are in the form of cruise ships, which can be considered destinations of their own. Others believe that the ships provide effective marketing for the individual islands, as passengers frequently return after a cruise that briefly visited the island. The cruise ship expansion is not without its problems. Even in large, established ports such as Puerto Rico and St. Thomas, complaints that passengers overcrowd the islands without consuming local goods and services are raising political and economic concerns. However, reconciliation between hotel and cruise ship operators may lie in the blend of land-sea vacations.

Tourist Attractions

The U.S. Virgin Islands attraction as a resort destination is derived primarily from the tropical climate of the area, particularly juxtaposed to the relatively cold climate in the regions of the mainland United States that constitute the islands' primary source markets. In addition, the natural beauty of the island of St. Thomas and its status as a territory of the United States further contribute to the area's suitability as a destination location.

ST JOHN

In addition to the beach activities previously mentioned, visitors to St. Thomas can enjoy a variety of other water activities, such as boating, sailing, fishing, snorkeling, and SCUBA diving. The waters between St. Thomas, St. John and St. Croix comprise one of the richest marine areas in the world. In addition to beautiful reefs and underwater caves in which a wide variety of tropical fish abound, the area has many shipwrecks and other underwater curiosities for the

HVS

SCUBA diver. All types of boating, including yachting and sailing, are extremely popular in the Virgin Islands (outside of hurricane season) because the trade winds blow consistently year round, the tropical climate, beautiful beaches, proximity to other Caribbean islands and marinas, and safe waters. Area resorts offer these water-related activities to their guests, providing a variety of sailing and fishing boats, in addition to regular SCUBA diving instruction and explorations.

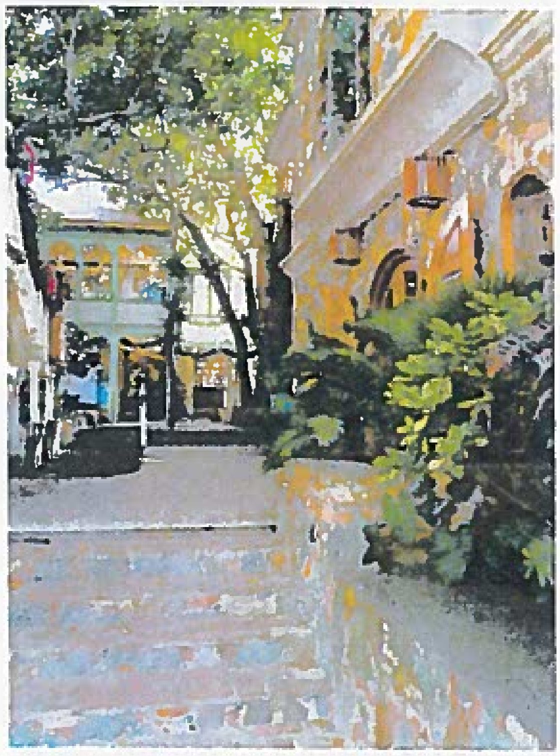
As previously mentioned, the Virgin Islands' attraction as a resort destination is derived primarily from the climate of the area, particularly juxtaposed to the climate in the regions of the mainland that constitute the islands' primary market areas. In addition, the natural resources and beauty of the islands further contribute to the area's suitability as a destination location.

On the Island of St. John, the major tourist attractions are the tropical vegetation and sandy beaches made available by the donation of roughly fourteen square miles to the National Park Service by Laurence Rockefeller. Among the interesting sites are a bay-tree forest, the Annaberg Ruins, and the St. John Museum.

Shopping on St. John

Although St. John offers several free-standing retail stores and a small two-story outdoor mall called Mongoose Junction in the Town of Cruz Bay, guests staying on the island generally take one-day excursions to St. Thomas for the majority of their shopping. As a free port, St. Thomas is a shopper's paradise, offering merchandise from around the world at savings ranging from 25% to 50%. Packed into several blocks within Charlotte Amalie are literally hundreds of duty-free shops, offering everything from French perfumes to Swiss watches, European crystal and china, and other merchandise.

ST JOHN SHOPPING DISTRICT



Conclusion

The natural attributes of the U.S. Virgin Islands make them ideally suited to the tourism trade, while at the same time limiting the potential for the development of other industries. As a result, the islands' economy is heavily dependent upon the leisure tourism industry, a circumstance that is considered to have positive and negative aspects.

The most obvious and influential negative factor is that this dependence renders St. John's economy extremely susceptible to fluctuations in the level of leisure tourism; as tourism is generally tied to the level of discretionary income of the population which constitutes the destination's primary source markets, the economy of the islands is most directly influenced by fluctuations in the U.S. economy. This relationship was evident in the early 1980s, the early 2000s, and in the past economic downturn; recessions in the United States resulted in declines in discretionary income levels and consequent declines in the tourism industry throughout the United States and popular U.S. destination locations, including the U.S. Virgin Islands. Seasonality is also an important aspect of the market; traditional hoteliers attempt to gain 60-65% of their annual income in the first five months of the year, or roughly the first 40% of the year. Hurricanes can also detrimental effect on tourist arrivals as well as the hotel infrastructure itself; in years following a particularly destructive hurricane, tourism arrivals are down as the hotels must be rebuilt and the negative stigma of potential danger for trip cancellations remains.

4. Supply and Demand Analysis

In the lodging industry, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. Supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends, as indicated by the current competitive market, and to set forth a basis for the projection of future supply and demand growth.

Definition of Subject Hotel Market

The 130-room Proposed Coral Bay Marina Resort will be located in St. John, US Virgin Islands. The greater market surrounding the subject site offers 9 hotels and motels, spanning 1,503 rooms. The two largest hotels are the 478-room Marriott and the 180-room Ritz-Carlton, each are located on the island of St. Thomas.

Due to the unique physical and historical characteristics of the Coral Bay area as a luxury destination resort, the subject property will only competes on a limited basis with the other hotels in the U.S. Virgin Islands. In fact, only a few resorts in the entire Caribbean region are considered comparable and competitive to the Coral Bay Marina and Resort, and will be the only resort that can offer a full-service marina and supporting facilities. Therefore, the subject property is considered also to a degree, compete with the luxury resorts from other islands of the Caribbean, primarily by virtue of product quality, the marina, and price point.

Although the lodging trends of the luxury resorts throughout the Caribbean do not necessarily reflect the dynamics of the local USVI lodging market, we have presented them in order to illustrate the overall trends of the Caribbean region, which we believe have a strong influence on the local lodging market and thus, the subject property. We also note that these trends will serve as benchmarks in projecting the subject property's occupancy and average rate performance.

Of this larger supply set, the proposed subject property is expected to compete with a smaller set of hotels based on various factors. These factors may include location, price point, product quality, length of stay (such as an extended-stay focus vs. non-extended-stay focus), room type (all-suite vs. standard), hotel age, or brand, among other factors. We have reviewed these pertinent attributes and established an expected competitive set based upon this review. Our review of the proposed subject property's specific competitive set within the St. John area begins after our review of national occupancy, average rate, and RevPAR trends.

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U.S. Virgin Island Historical Demand Levels

The preceding market conditions have affected occupancy levels across the U.S. Virgin Islands. The Bureau of Economic Research maintains occupancy statistics for the territory's lodging supply; a summary of these statistics has been presented in the following table. Year-end 2012 data was not available at the time of this report.

FIGURE 4-1 HOTEL OCCUPANCY RATES – OCTOBER 2011 TO OCTOBER 2012

Month	St. Thomas/ St. John			St. Croix			Total USVI		
	2011	2012	% chg	2011	2012	% chg	2011	2012	% chg
January	60.3	61.4	1.0	49.3	54.2	5.0	57.6	59.6	2.0
February	65.1	66.2	1.1	59.5	59.1	-0.3	63.7	64.4	0.7
March	71.4	57.2	-14.1	50.6	55.1	4.5	66.3	56.7	-9.6
April	51.9	57.3	-4.5	41.2	41.7	0.5	56.9	53.6	-3.3
May	56.0	46.0	-10.0	36.6	34.8	-1.9	51.0	43.3	-7.7
June	51.6	45.7	-5.9	40.4	34.7	-5.7	48.7	43.1	-5.7
July	53.2	52.5	-0.7	47.5	36.5	-11.1	51.7	48.7	-3.0
August	44.2	44.0	-0.1	40.1	31.9	-8.2	43.1	41.2	-1.9
September	33.7	30.5	-3.2	35.9	24.7	-11.3	34.3	29.2	-5.1
October	47.1	39.8	-7.3	36.5	32.6	-3.9	44.5	38.1	-6.4
November	46.7	-	-	52.7	-	-	48.2	-	-
December	59.4	-	-	52.1	-	-	57.6	-	-
Quarter:									
First	65.6	61.3	-4.4	52.9	56.1	3.2	62.5	60.2	-2.5
Second	56.6	49.6	-7.0	39.4	37.0	-2.4	52.3	46.6	-5.7
Third	43.8	42.5	-1.3	41.2	31.5	-9.7	43.2	39.9	-3.2
Fourth	51.1	-	-	47.0	-	-	50.1	-	-
Total:	60.6	-	-	45.8	-	-	57.0	-	-

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The hotel occupancy rate averaged 60.6% in the St. Thomas-St. John area in 2011 with 574,959 registered hotel guests. Local resident guests declined by 9.3%, while guests from Puerto Rico increased 2.1%. Guests from other areas and other West Indies increased by 51.7% and 13.3%, respectively. In addition, guests from Central and South America grew by 21.5% and 55.1% and visitation from Europe increased by 55.1%, and Canadian guests grew by 1.5%.

The Caribbean lodging market bottomed out in late 2009, at which time demand rebounded and the supply pipeline diminished. In 2010, occupancy rebounded strongly, and by 2011, average rates in most islands showed increases. In many markets, strong occupancy levels are allowing hotel operators to continue to make aggressive average rate gains in 2013, while in some less-robust markets, average rate growth is still constrained by weak demand levels. With demand largely recovered from the correction in 2009, and new supply remaining muted in 2013 and 2014, markets should be able to support healthy average rate gains in the near term.

FIGURE 4-2 ESTIMATED ROOM OCCUPANCY BY ISLAND AND TYPE OF VISITOR ACCOMMODATIONS

All Visitor Accommodations	October Only		October Year-to-date	
	2011	2012	2011	2012
USVI				
Occupancy Rate (%)	44.5	38.1	51.9	48.0
Room Nights Occupied	68,553	59,409	768,057	726,961
Room Nights Available	154,132	155,963	1,479,100	1,515,900
Ave. Guest stay in Nights	4.3	4.3	5.2	4.9
St. Thomas/ St. John				
Occupancy Rate (%)	47.1	39.8	54.7	50.2
Room Nights Occupied	54,738	47,520	605,866	578,799
Room Nights Available	116,281	119,443	1,107,646	1,152,683
Ave. Guest stay in Nights	4.4	4.4	5.6	5.2
St. Croix				
Occupancy Rate (%)	36.5	32.6	43.7	40.9
Room Nights Occupied	13,815	11,889	162,191	148,162
Room Nights Available	37,851	36,520	371,454	363,217
Ave. Guest stay in Nights	3.8	4.0	4.2	4.2
Large Hotels	**2011**	**2012**	**2011**	**2012**
USVI				
Occupancy Rate (%)	42.7	35.0	54.7	48.4
Room Nights Occupied	39,783	33,144	481,752	446,207
Room Nights Available	93,093	94,767	881,258	922,557
Ave. Guest stay in Nights	3.4	3.3	5.2	4.7
St. Thomas/ St. John				
Occupancy Rate (%)	44.6	34.7	57.3	50.2
Room Nights Occupied	34,013	27,088	410,859	380,325
Room Nights Available	76,291	77,965	716,490	757,247
Ave. Guest stay in Nights	1.5	1.6	5.4	4.8
St. Croix				
Occupancy Rate (%)	34.3	36.0	43.0	39.9
Room Nights Occupied	5,770	6,056	70,893	65,882
Room Nights Available	16,802	16,802	164,768	165,310
Ave. Guest stay in Nights	4.2	4.5	4.3	4.2

Small Hotels	October Only		October Year-to-date	
	2011	2012	2011	2012
USVI				
Occupancy Rate (%)	74.3	70.0	53.7	53.5
Room Nights Occupied	19,394	17,984	136,652	135,294
Room Nights Available	26,102	25,693	254,626	252,725
Ave. Guest stay in Nights	6.1	7.2	4.1	4.4
St. Thomas/ St. John				
Occupancy Rate (%)	100.0	100.0	59.1	62.5
Room Nights Occupied	14,198	13,795	81,508	84,732
Room Nights Available	14,198	13,795	137,890	135,605
Ave. Guest stay in Nights	9.9	10.8	4.8	5.1
St. Croix				
Occupancy Rate (%)	43.7	35.2	47.2	43.2
Room Nights Occupied	5,196	4,189	55,144	50,562
Room Nights Available	11,904	11,904	116,736	117,120
Ave. Guest stay in Nights	2.9	3.4	3.4	3.5
Condominiums/Other	**2011**	**2012**	**2011**	**2012**
USVI				
Occupancy Rate (%)	26.8	23.3	43.6	42.7
Room Nights Occupied	9,376	8,281	149,653	145,460
Room Nights Available	34,937	35,497	343,216	340,618
Ave. Guest stay in Nights	7.7	8.1	6.8	7.1
St. Thomas/ St. John				
Occupancy Rate (%)	25.3	24.0	44.8	43.8
Room Nights Occupied	6,527	6,637	113,499	113,742
Room Nights Available	25,792	27,683	253,266	259,831
Ave. Guest stay in Nights	8.7	11.1	7.0	7.6
St. Croix				
Occupancy Rate (%)	31.2	21.0	40.2	39.3
Room Nights Occupied	2,849	1,644	36,154	31,718
Room Nights Available	9,145	7,814	89,950	80,787
Ave. Guest stay in Nights	6.1	3.9	6.2	5.6

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FIGURE 4-3 ORIGIN DISTRIBUTION BY ISLAND – OCTOBER 2011 TO OCTOBER 2012

Area of Origin	October Only		October Year-to-Date			
			Total		Percent Distribution	
	2011	2012	2011	2012	2011	2012
USVI HOTEL GUESTS FROM:						
U.S. Mainland	35,429	34,460	507,616	477,015	84.1	83.0
Puerto Rico	1,379	1,477	15,812	16,142	2.6	2.8
U.S.V.I.	3,928	4 497	46,249	41,935	7.7	7.3
Other West Indies	673	666	7,609	6,600	1.3	1.1
Canada	257	215	5,554	5,635	0.9	1.0
Europe	2,154	1,249	14,810	22,968	2.5	4.0
Central America	30	60	480	583	0.1	0.1
South America	98	52	1,371	2,092	0.2	0.4
Other Areas	273	204	4,114	1,989	0.7	0.3
TOTAL	44,221	42,879	603,614	574,959	100.0	100.0
ST. THOMAS/ST. JOHN HOTEL GUESTS FROM:						
U.S. Mainland	31,490	30,320	443,964	428,144	86.9	87.2
Puerto Rico	633	866	9,378	9,257	1.8	1.9
U.S.V.I.	2,583	3,223	31,798	28,882	6.2	5.9
Other West Indies	566	585	6,836	5,044	1.3	1.0
Canada	220	176	5,000	4,976	1.0	1.0
Europe	1,050	607	10,759	11,813	2.1	2.4
Central America	23	21	418	269	0.1	0.1
South America	96	27	1,251	1,091	0.2	0.2
Other Areas	104	127	1,538	1,291	0.3	0.3
TOTAL	36,765	35,951	510,943	490,768	100.0	100.0
ST. CROIX HOTEL GUESTS FROM:						
U.S. Mainland	3,939	4,140	63,652	48,871	68.7	58.0
Puerto Rico	746	611	6,434	6,885	6.9	8.2
U.S.V.I.	1,345	1,274	14,451	13,053	15.6	15.5
Other West Indies	107	81	772	1,556	0.8	1.8
Canada	37	39	554	659	0.6	0.8
Europe	1,104	642	4,051	11,155	4.4	13.2
Central America	7	39	62	314	0.1	0.4
South America	2	25	120	1,001	0.1	1.2
Other Areas	170	77	2,575	697	2.8	0.8
TOTAL	7,457	6,928	92,672	84,190	100.0	100.0

Historical Supply and Demand Data

Smith Travel Research (STR) is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. STR has compiled historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject property. This information is presented in the following table, along with the market-wide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

The properties that have been included in the following set are not all competitive with the proposed subject property; properties have been included in this trend report that are not competitive with the proposed subject property in order to bypass the limitations that have been placed on the data by STR. Nonetheless, the trends exhibited by this collection of properties does remain indicative of the larger-scale dynamic lodging market of the U.S. Virgin Islands, particularly on St. Thomas, with regard to trends in hotel occupancy, average rate, RevPAR, and seasonality.

Based on our selected primary competitive hotel set, room night demand has grown at an annual average annual compounded rate of approximately 0.3% between 2007 and 2012. Demand increased by 0.4% in 2008, and then declined by 3.1% in 2009 mirroring global economic turmoil and significant downward trends in international travel. Demand increased 1.8% in 2010, which was followed by a 2.4% increase in 2011. However, in 2012 demand declined by 2.7%. Year-to-date indicators suggest that occupancy declined by 1.6% through May 2013 compared to the same period in 2012. Over the periods analyzed, the competitive sets occupancy rate ranged from a low of 69.6% to a high of 73.3%. Occupancy rates over the past three years have been in excess of 70%.

Average rates on the other hand, increased significantly in 2008 by 11.7%, and then were offset with devastating decreases in 2009 by 13.8%. Over the past three years the average rate has regained strength by increasing at a rate of 2.9% in 2010, 3.7% in 2011 and 6% in 2012. This has resulted in RevPAR increases over the past three years of 4.7% in 2010, 6.5% in 2011 and 3.8% in 2012. The annual average compounded rate of change to the average rate is 1.7% between 2007 and 2012, which was significantly impacted with a rate compression of 13.8% in 2009. The average rate through April 2013 is down 6.3% compared to the same period in 2012. Over the periods analyzed, the competitive sets average rate ranged from a low of $282.97 in 2009 to a high of $328.40 in 2008. After 2009, the average rate continues to advance back to pre-recession levels and recorded a rate of $319.90 in 2012.

ʒURE 4-4 HISTORICAL SUPPLY AND DEMAND TRENDS

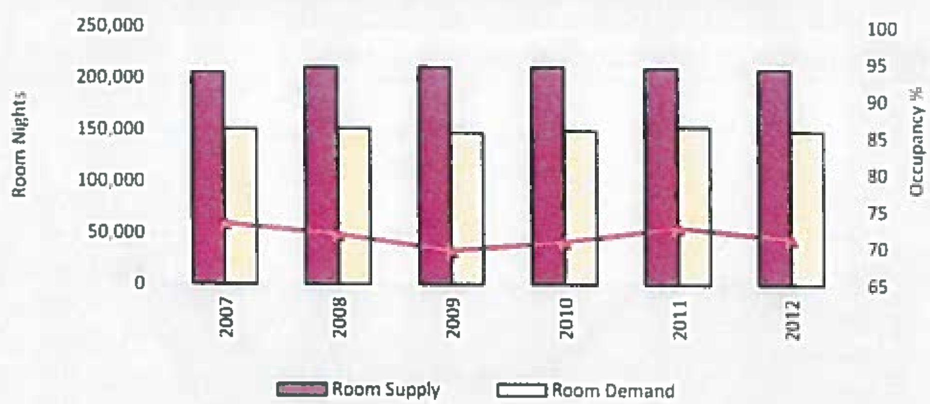
Year	Average Daily Room	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2007	564	205,902	—	150,894	—	73.3 %	$294.11	—	$215.54	—
2008	578	210,970	2.5 %	151,468	0.4 %	71.8	328.40	11.7 %	235.78	9.4 %
2009	578	210,970	0.0	146,769	(3.1)	69.6	282.97	(13.8)	196.86	(16.5)
2010	578	210,970	0.0	149,361	1.8	70.8	291.12	2.9	206.10	4.7
2011	576	210,358	(0.3)	153,013	2.4	72.7	301.78	3.7	219.51	6.5
2012	573	209,145	(0.6)	148,931	(2.7)	71.2	319.90	6.0	227.80	3.8
Average Annual Compounded Change:										
2007-2012			0.3 %		(0.3) %			1.7 %		1.1 %
Year-to-Date Through April										
2012	573	68,760	—	56,614	—	82.3 %	$390.63	—	$321.62	—
2013	570	68,400	(0.5) %	55,735	(1.6) %	81.5	366.11	(6.3) %	298.32	(7.2) %

Hotels Included in Sample	Location	Number of Rooms	Year Opened	Classification	Ranking
Ritz-Carlton St Thomas	St Thomas, STT	180	Jan 1996	Luxury Class	Primary - Superior
Westin St John Resort	Great Cruz Bay, STJ	172	Jan 1986	Upper Upscale Class	Primary - Superior
Bolongo Bay Beach Resort	Charlotte Amalie, STT	77	Jun 1969	Upscale Class	Secondary - Inferior
Best Western Plus Emerald Beach Resort	Charlotte Amalie, STT	90	Jan 1991	Upper Midscale Class	Secondary - Inferior
Best Western Carib Beach Resort	Charlotte Amalie, STT	51	Jun 1950	Midscale Class	Secondary - Inferior
	Total	570			

Source: STR Global

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample, and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

FIGURE 4-12 ROOM SUPPLY AND DEMAND



Source: STR Global

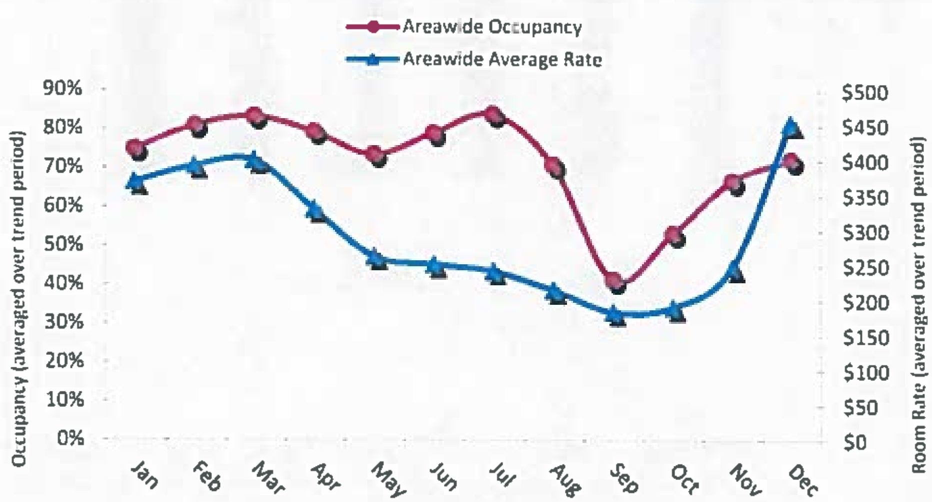
The STR data for the competitive set reflect an overall market occupancy level of 71.2% in 2012, which compares to 72.7% for 2011. The overall average occupancy level for the calendar years presented equates to 71.6%. Lodging trends in the St. Thomas-St. John area began improving considerably from late 2006 through 2008. However, in late 2008, the market began experiencing a setback, mostly attributed to reduced international travel given the global economic crisis. It is important to note that the majority of upper-upscale and upscale resort demand on the island of St. John is accommodated by the Westin St. John Resort and Caneel Bay Resort, which represents virtually all of the room supply in this tier level. Alternatively, hotel accommodations on St. John are provided by numerous small condo hotels, villas and rental apartment units which are typically rented on a seasonal basis.

The STR data for the competitive set reflect an overall market average rate level of $319.90 in 2012, which compares to $301.78 for 2011. The average across all calendar years presented for average rate equates to $303.14. Average rate in the local market registered positive growth mid-decade from 2005 through much of 2008. The strength of the economy during that time, with little rate-resistance from the leisure sector, allowed hotel operators to increase rates. Upon the onset of the economic recession, average rate growth began to slow in late 2008. Average rates declined in 2009, and this downward trend continued through the year, along with the contraction of the national economy; however, average rates bottomed out in the low $290s that year. Average rates rebounded in 2010-2011, and this positive trend continued through 2012 as the national and local lodging markets began to normalize. These occupancy and average rate trends resulted in a RevPAR level of $227.80 in 2012.

Seasonality

Monthly occupancy and average rate trends are presented in the following tables.

FIGURE 4-13 SEASONALITY - OCCUPANCY AND AVERAGE RATE



Source: STR Global

The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate.

GURE 4-5 MONTHLY OCCUPANCY TRENDS

Month	2007	2008	2009	2010	2011	2012	2013
January	70.5 %	77.1 %	69.4 %	79.5 %	76.3 %	76.4 %	72.8 %
February	75.0	83.0	77.5	85.5	82.1	83.0	82.9
March	78.6	86.2	77.9	86.5	82.9	87.5	86.1
April	81.1	83.7	74.7	79.8	74.3	82.6	84.4
May	78.4	74.2	72.2	72.3	69.9	74.1	—
June	87.0	82.0	75.5	74.1	76.7	79.0	—
July	91.2	85.2	80.4	81.8	86.1	78.3	—
August	75.3	76.3	66.7	69.1	71.5	65.9	—
September	42.9	33.4	42.2	41.2	49.0	38.6	—
October	57.6	47.5	52.3	52.3	61.3	48.2	—
November	71.2	64.2	71.1	57.1	68.8	68.9	—
December	71.9	69.2	75.3	70.7	74.0	72.8	—
Annual Occupancy	**73.3 %**	**71.8 %**	**69.6 %**	**70.8 %**	**72.7 %**	**71.2 %**	**—**
Year-to-Date	**76.3 %**	**82.5 %**	**74.8 %**	**82.8 %**	**78.9 %**	**82.3 %**	**81.5 %**

Source: STR Global

GURE 4-6 MONTHLY AVERAGE RATE TRENDS

Month	2007	2008	2009	2010	2011	2012	2013
January	$349.35	$416.96	$361.51	$342.28	$363.48	$380.91	$371.58
February	376.36	442.98	371.06	365.87	390.62	407.73	377.61
March	367.24	469.36	359.77	383.55	393.61	427.79	402.73
April	318.14	337.18	322.56	333.35	328.41	343.14	312.12
May	246.30	299.16	257.13	245.73	258.53	271.56	—
June	244.58	262.95	237.50	243.19	250.49	269.99	—
July	226.70	258.67	221.23	227.05	242.90	274.06	—
August	220.12	218.04	189.24	199.16	216.18	244.77	—
September	192.02	193.68	173.01	163.62	178.59	200.65	—
October	194.06	188.16	187.74	170.06	192.95	211.89	—
November	277.07	261.52	229.54	229.58	238.17	250.57	—
December	490.86	452.73	403.64	461.33	489.80	425.46	—
Annual Average Rate	**$294.11**	**$328.40**	**$282.97**	**$291.12**	**$301.78**	**$319.90**	**—**
Year-to-Date	**$352.02**	**$416.97**	**$353.62**	**$356.95**	**$370.01**	**$390.63**	**$366.11**

Source: STR Global

Patterns of Demand

A review of the trends in occupancy, average rate, and RevPAR per day of the week over the past three fiscal years provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by Smith Travel Research, are illustrated in the following table.

FIGURE 4-7 OCCUPANCY, AVERAGE RATE AND REVPAR BY DAY OF WEEK

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
May 10 - Apr 11	67.0 %	63.7 %	64.7 %	69.0 %	73.9 %	73.9 %	74.2 %	69.5 %
May 11 - Apr 12	70.2	68.7	70.1	74.2	78.9	78.2	76.7	73.9
May 12 - Apr 13	68.0	66.4	65.6	70.1	75.0	76.1	75.3	70.9
Change (Occupancy Points)								
FY 11 - FY 12	3.1	5.0	5.4	5.2	5.1	4.3	2.6	4.4
FY 12 - FY 13	-2.2	-2.3	-4.6	-4.1	-3.9	-2.1	-1.5	-3.0
ADR ($)	**Sunday**	**Monday**	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Saturday**	**Total Year**
May 10 - Apr 11	$289.58	$299.16	$299.71	$293.30	$293.37	$296.37	$292.23	$294.72
May 11 - Apr 12	299.09	313.05	309.98	310.82	316.54	314.26	306.85	310.19
May 12 - Apr 13	315.73	318.50	305.20	300.66	311.00	307.14	313.83	310.25
Change (Dollars)								
FY 11 - FY 12	$9.52	$13.88	$10.26	$17.52	$23.17	$17.89	$14.62	$15.48
FY 12 - FY 13	16.64	5.45	-4.77	-10.17	-5.54	-7.13	6.98	0.06
Change (Percent)								
FY 11 - FY 12	3.3 %	4.6 %	3.4 %	6.0 %	7.9 %	6.0 %	5.0 %	5.3 %
FY 12 - FY 13	5.6	1.7	-1.5	-3.3	-1.8	-2.3	2.3	0.0
RevPAR ($)	**Sunday**	**Monday**	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Saturday**	**Total Year**
May 10 - Apr 11	$194.15	$190.57	$193.97	$202.34	$216.66	$219.08	$216.78	$204.83
May 11 - Apr 12	209.94	215.22	217.43	230.64	249.84	245.90	235.47	229.11
May 12 - Apr 13	214.77	211.55	200.09	210.72	233.31	233.76	236.20	220.00
Change (Dollars)								
FY 11 - FY 12	$15.79	$24.65	$23.46	$28.30	$33.18	$26.82	$18.69	$24.29
FY 12 - FY 13	4.83	-3.67	-17.34	-19.91	-16.53	-12.14	0.72	-9.11
Change (Percent)								
FY 11 - FY 12	8.1 %	12.9 %	12.1 %	14.0 %	15.3 %	12.2 %	8.6 %	11.9 %
FY 12 - FY 13	2.3	-1.7	-8.0	-8.6	-6.6	-4.9	0.3	-4.0

Source: STR Global

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights.

FIGURE 4-8 WEEK DAY SEASONALITY OF OCCUPANCY AND AVERAGE RATE (TRAILING 12-MONTHS)

Occupancy

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
May - 12	73.1 %	66.2 %	65.4 %	70.6 %	77.6 %	83.4 %	84.4 %	74.1 %
Jun - 12	73.0	76.5	76.0	81.3	82.5	79.3	82.9	79.0
Jul - 12	73.2	74.6	72.5	78.4	84.0	84.8	84.0	78.3
Aug - 12	63.2	62.1	61.7	67.4	69.5	68.0	67.8	65.9
Sep - 12	37.6	37.9	38.0	38.3	38.9	38.6	40.7	38.6
Oct - 12	47.3	41.7	40.1	47.3	54.1	56.1	54.6	48.2
Nov - 12	66.3	62.5	62.2	67.7	71.6	74.7	75.5	68.9
Dec - 12	69.3	68.4	66.6	72.7	77.5	79.1	76.6	72.8
Jan - 13	73.1	66.7	65.3	68.8	76.5	80.8	80.3	72.8
Feb - 13	78.8	75.8	74.9	84.6	91.4	88.4	86.4	82.9
Mar - 13	82.1	82.8	84.5	86.0	89.8	89.1	87.9	86.1
Apr - 13	82.1	81.8	80.6	84.7	88.2	89.6	85.5	84.4
Average	**68.0 %**	**66.4 %**	**65.6 %**	**70.1 %**	**75.0 %**	**76.1 %**	**75.3 %**	**70.9 %**

Average Rate

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
May - 12	$285.71	$269.09	$260.58	$262.94	$271.59	$275.30	$277.14	$271.56
Jun - 12	269.96	276.68	286.50	266.40	253.31	268.87	270.11	269.99
Jul - 12	273.02	286.64	267.80	279.89	273.63	269.73	267.33	274.06
Aug - 12	240.04	239.22	241.46	235.83	249.71	246.75	259.56	244.77
Sep - 12	211.92	192.37	195.50	174.01	225.62	179.63	217.14	200.65
Oct - 12	217.00	215.25	201.66	208.50	215.10	207.74	218.38	211.89
Nov - 12	249.33	252.05	247.45	243.47	250.66	249.98	260.01	250.57
Dec - 12	427.44	530.24	362.21	395.88	429.40	418.99	398.74	425.46
Jan - 13	370.13	346.59	430.89	356.49	359.70	362.24	373.02	371.58
Feb - 13	393.79	364.31	353.13	362.87	386.00	375.98	402.99	377.61
Mar - 13	398.47	394.84	386.42	418.67	422.61	400.16	399.08	402.73
Apr - 13	315.53	308.32	314.56	304.56	315.13	318.01	308.75	312.12
Average	**$315.73**	**$318.50**	**$305.20**	**$300.66**	**$311.00**	**$307.14**	**$313.83**	**$310.25**

Source: Smith Travel Research

FIGURE 4-9 OCCUPANCY AND AVERAGE RATE - CHANGES

Month	2008 Occupancy	2008 ADR	2009 Occupancy	2009 ADR	2010 Occupancy	2010 ADR	2011 Occupancy	2011 ADR	2012 Occupancy	2012 ADR
January	9.3 %	19.4	-10.0 %	-13.3	14.6 %	-5.3	-4.0 %	6.2	0.1 %	4.8
February	10.6	17.7	-6.6	-16.2	10.3	-1.4	-4.0	6.8	1.0	4.4
March	9.7	27.8	-9.6	-23.3	11.1	6.6	-4.2	2.6	5.5	8.7
April	3.2	6.0	-10.8	-4.3	6.8	3.3	-6.9	-1.5	11.1	4.5
May	-5.4	21.5	-2.7	-14.1	0.2	-4.4	-3.3	5.2	5.9	5.0
June	-5.7	7.5	-7.9	-9.7	-1.9	2.4	3.5	3.0	3.0	7.8
July	-6.6	14.1	-5.6	-14.5	1.8	2.6	5.3	7.0	-9.1	12.8
August	1.4	-0.9	-12.7	-13.2	3.7	5.2	3.5	8.6	-7.8	13.2
September	-22.3	0.9	26.5	-10.7	-2.5	-5.4	19.0	9.2	-21.2	12.3
October	-17.6	-3.0	10.1	-0.2	0.2	-9.4	17.2	13.5	-21.4	9.8
November	-9.9	-5.6	10.8	-12.2	-19.6	0.0	20.5	3.7	0.2	5.2
December	-3.7	-7.8	8.8	-10.8	6.2	14.3	4.7	6.2	-1.7	-13.1
Annual Change	**-2.0 %**	**11.7**	**-3.1 %**	**-13.8**	**1.8 %**	**2.9**	**2.7 %**	**3.7**	**-2.1 %**	**6.0**

SUPPLY

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be primarily competitive with the proposed subject property. If applicable, additional lodging facilities may be judged only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primary competitive supply, they are expected to compete with the proposed subject property to some extent.

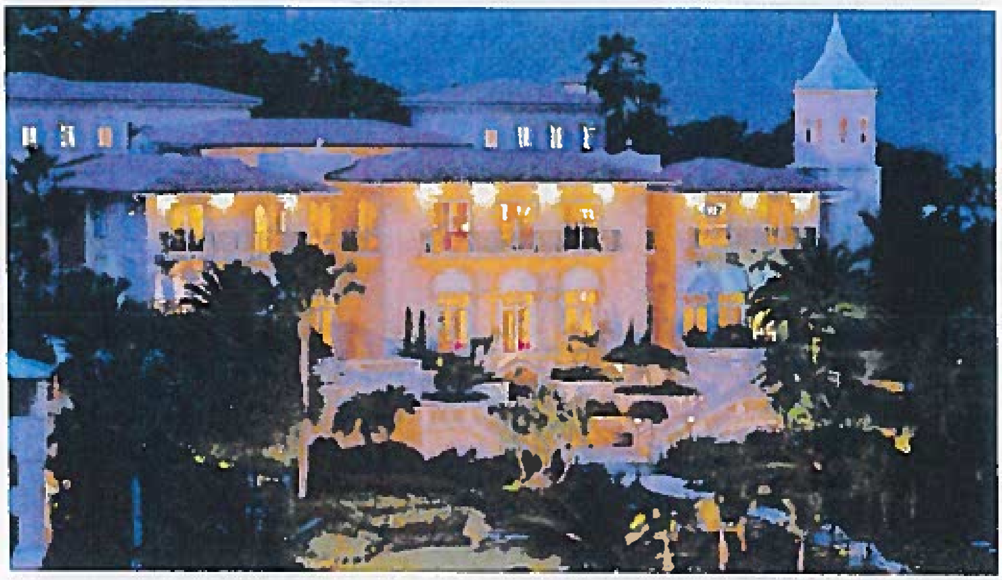
The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also sets forth each property's penetration factors; penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole; conversely, if the penetration is less than 100%, the hotel is performing at a level below the market-wide average.

Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was inspected and evaluated. Descriptions of our findings are presented below.

GURE 4-10 PRIMARY AND SECONDARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentatio		Estimated 2010				Estimated 2011				Estimated 2012						
roperty	Number of Rooms	Leisure	Meeting and Group	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
itz-Carlton Saint Thomas	180	85 %	15 %	180	73 %	$414.00	$302.22	180	71 %	$465.00	$330.15	180	71 %	$494.00	$350.74	6.2 %	99.8 %	154.2 %
Vestin St. John Resort	172	85	15	172	69	331.00	228.39	172	75	310.00	232.50	172	74	318.00	235.32	1.2	104.0	103.4
ub-Totals/Averages	352	85 %	15 %	352	71.0 %	$374.61	$266.14	352	73.0 %	$387.14	$282.43	352	72.5 %	$406.30	$294.42	4.2 %	101.9 %	129.4 %
econdary Competitors	218	85 %	15 %	218	70.0 %	$155.00	$108.50	218	72.0 %	$162.00	$116.64	218	69.0 %	$173.00	$119.37	2.3 %	97.0 %	52.5 %
otals/Averages	570	85 %	15 %	570	70.6 %	$291.39	$205.85	570	72.6 %	$301.73	$219.03	570	71.1 %	$319.83	$227.53	3.9 %	100.0 %	100.0 %

PRIMARY COMPETITOR #1 - RITZ-CARLTON SAINT THOMAS



Ritz-Carlton Saint Thomas
6900 Great Bay
Saint Thomas

FIGURE 4-11 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	180	73 %	$414	$302	103.3 %	146.8 %
Estimated 2011	180	71	465	330	97.8	150.7
Estimated 2012	180	71	494	351	99.8	154.2

The Ritz-Carlton St. Thomas was originally built as a 152-unit independent hotel; it became associated with The Ritz-Carlton brand in 1996. This resort is situated on a 30-acre secluded estate along Great Bay on the eastern tip of St. Thomas. According to STR, the property has undergone a few room count changes over its life including a 48-unit expansion in December of 2002, a 24-unit reduction in May of 2005, and another 24-unit reduction in November of 2005. The hotel added 28 rooms in July 2007, following a comprehensive $40 million renovation. The hotel was closed for renovation starting August 2006, ending June 2007. The full scope of the renovation included upgrades to all the food and beverage facilities, guestroom buildings, walkways, balconies, and facades that were refreshed with new stone and tile surfaces. The property features architecture that was influenced by Spanish, European, and Caribbean design; the resort offers four food and beverage outlets, ±10,000 square feet of meeting space, two outdoor pools and hot tub, two tennis courts, a health club and spa, an aquatic center, retail space and a business center. Also located on the 30-acre site are 200 Ritz-Carlton Club fractional units. The property benefits from its steady flow of demand from the incentive travel group segment. Overall, the property appeared to be in very good condition. Its accessibility is superior to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Coral Bay Marina Resort.

As a strong branded luxury property, the Ritz will be rate positioned above the subject hotel. As such, the operating metrics of this hotel help to frame the rate positioning that can realistically be achieved by the proposed subject Coral Bay Marina Resort hotel.

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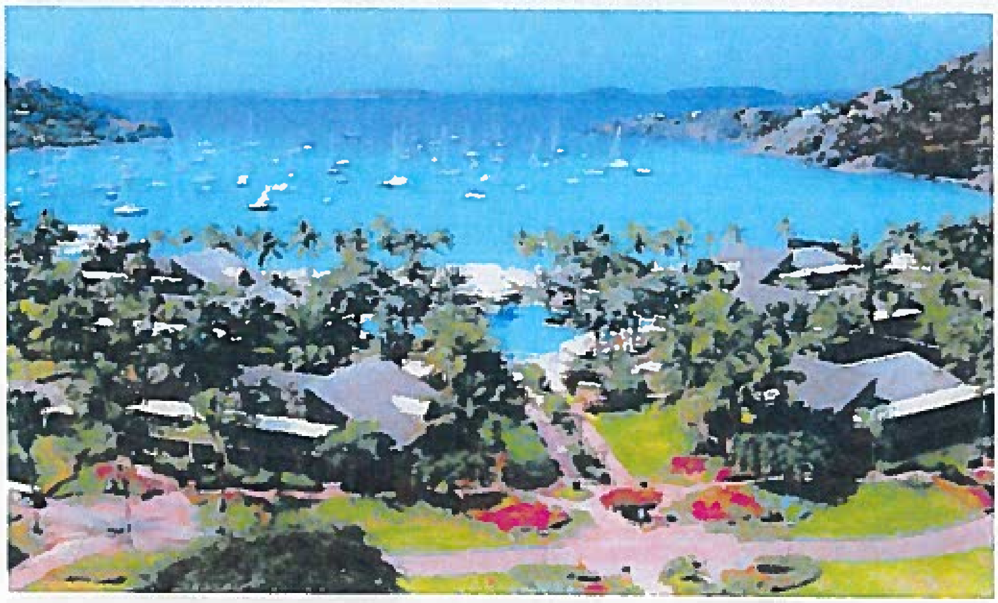
PRIMARY COMPETITOR #2 - WESTIN ST. JOHN RESORT



Westin St. John Resort
Post Office Box 8310
Saint John

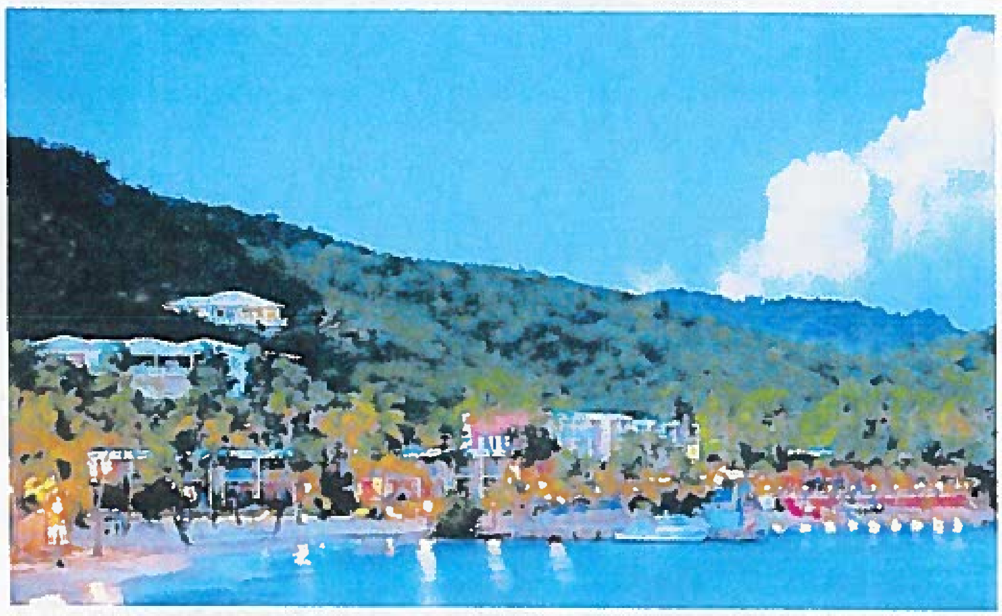
FIGURE 4-12 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	172	69 %	$331	$228	97.7 %	110.9 %
Estimated 2011	172	75	310	233	103.3	106.2
Estimated 2012	172	74	318	235	104.0	103.4

The Westin St. John is located within the greater Cruz Bay area of St. John, along a private 1,200-foot-long white sand beach surrounded by the lush green hills of Emerald Isle. Facilities include three restaurants, an outdoor pool and whirlpool, a fitness center, a business center, guest laundry, a gift shop, tennis courts, a spa, and roundly 10,000 square feet of meeting space. The hotel was built in 1986 and undergone subsequent renovations, which include the conversion of the 108 upper hillside resort guest rooms into 54 vacation ownership villas, as well as upgrades in guestrooms and the lobby. The latest renovation was completed by October 2008. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Coral Bay Marina Resort.

The Westin in St. John (which is a Starwood owned and branded hotel) is currently converting three more hotel buildings into timeshare units collectively containing 79 hotel rooms. Construction has started and completion is expected in the 4^{th} quarter of 2014 with first occupancy in the 1^{st} quarter of 2015. The owners will not receive a deed, but a certificate of ownership in a trust, which is the new timeshare ownership model being utilized by Starwood Vacation Club. The resort already has two timeshare phases contained in 6 hotel buildings. Over time, the entire resort is envisioned to convert all hotel rooms to dedicated timeshare units. This expected long term strategy of Starwood will serve to reduce the number of upper upscale hotel rooms available on St. John; said expected future reductions in traditional hotel supply will be very beneficial for the proposed subject hotel.

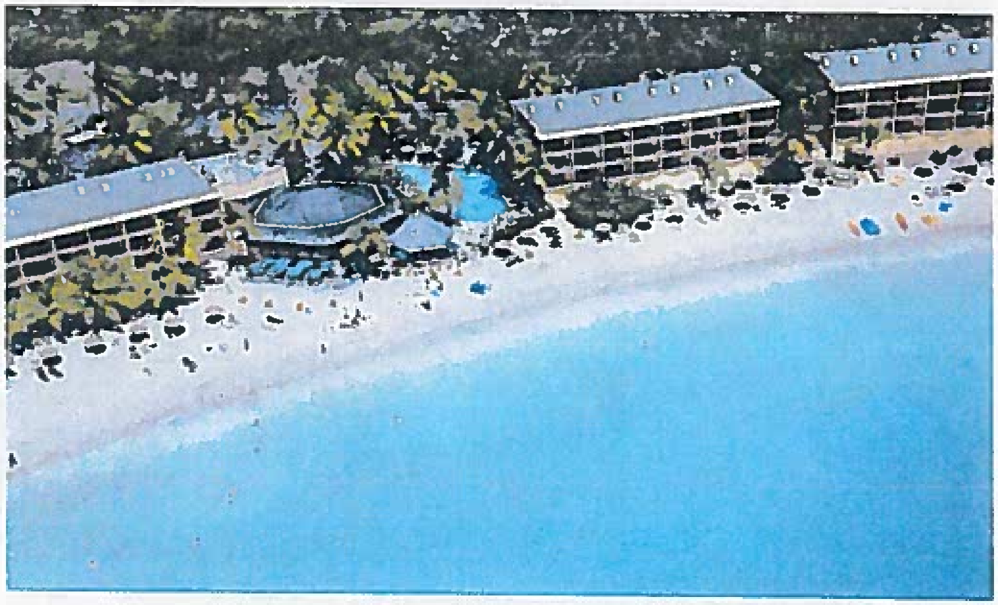
SECONDARY COMPETITOR #1 – BOLONGO BAY BEACH RESORT



Facing a small, idyllic bay, this long-established St Thomas resort is midway between downtown Charlotte Amalie's shopping district and Red Hook's ferries to St. John and the British Virgin Islands. Guests at Bolongo Bay Beach Resort may book either an all-Inclusive plan or a room-only (no meals) plan. The all-inclusive plan includes meals at an acclaimed Caribbean fusion restaurant and a relaxed beachfront grill. The Bolongo Bay Beach Resort's 77 guestrooms feature balconies or terraces with close-up bay views. Rattan furniture set a tropical tone and each room is complimented with ceiling fans and air conditioners. Bolongo Bay Beach Resort is not a deluxe property, but the rooms are nice, spacious and comfortable. The property offers 48 beachfront rooms (including 24 condominiums) with ground floor beach access, 38 rooms located on the second and third floor with beach views and private balcony, nine "value" rooms, and nine hotel rooms, all with ocean views and lots of living area. Every room is fully equipped including cable TV, air conditioning, telephone, refrigerator, microwave, coffee maker and unlimited complimentary coffee, hair dryer, iron and ironing board, and in-room safe.

Overall, the property appeared to be in average to fair condition. Its accessibility is superior to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Coral Bay Marina Resort.

SECONDARY COMPETITOR #2 - BEST WESTERN PLUS EMERALD BEACH RESORT

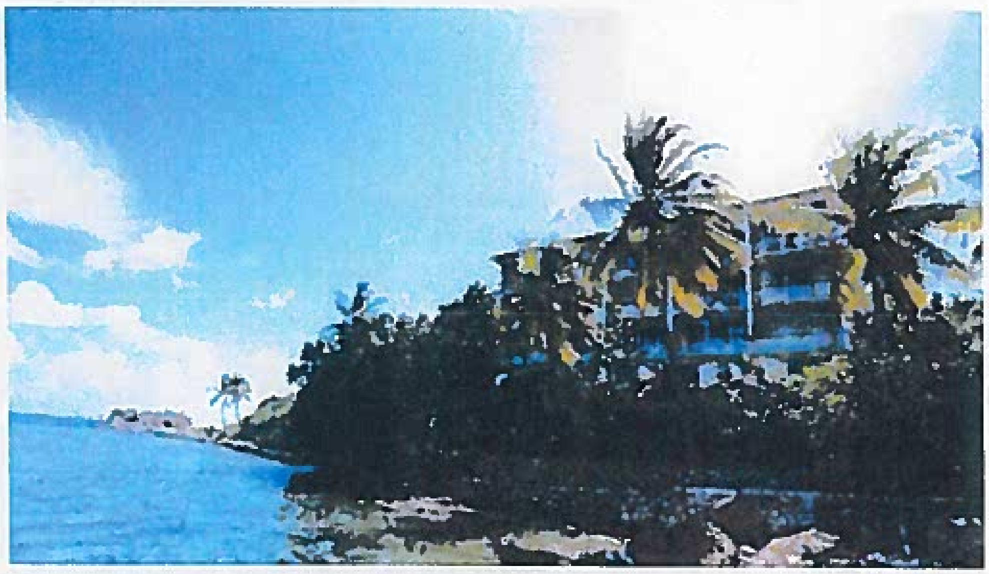


Located adjacent to the Cyril E. King International Airport on the eastern beach of Lindberg Bay, the Best Western Emerald Beach Resort offers 90 beachfront guestrooms. Across Lindberg Bay on the western shore is the Best Western Carib Beach Resort; both Best Western resorts are owned and operated by the same entity though the Emerald Beach Resort has been positioned at a higher price tier than the Carib Beach Resort given the fact that the amenities, facilities, and the guestrooms at Emerald Beach are more upscale in terms of design and FF&E than those at Carib Beach. For dining, the property features Portobello and the Palms restaurants as well as a poolside bar. The hotel property is located approximately two miles from downtown Charlotte Amalie and just one-half mile from the Cyril E. King International Airport, a significant benefit to many transient air passengers. The property is also one of the closest lodging options to the University of the Virgin Islands, which acts to bolsters this property's penetration into commercial market segment.

The latest available data regarding occupancy and average rate for the Best Western Plus Emerald Beach Resort, was that the property recorded an occupancy rate of 75% and an average rate of $190, resulting in a RevPAR of $143.

Overall, the property appeared to be in average to fair condition. Its accessibility is superior to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Coral Bay Marina Resort.

SECONDARY COMPETITOR #3 - BEST WESTERN CARIB BEACH RESORT



The Best Western Carib Beach Resort offers 51 guestrooms overlooking the western shore of Lindberg Bay; the Best Western Emerald Beach Resort is visible to the east. The Carib Beach Resort has been positioned at a lower price tier than the Emerald Beach Resort. The property features a full-service restaurant (breakfast, lunch, and dinner) called Fajita Mexican Restaurant and Bar, an outdoor pool, beach access, and a business center. Like its neighbor the Emerald Beach Resort, this hotel is located approximately two miles from downtown Charlotte Amalie and just one-half mile from the Cyril E. King International Airport, a significant benefit to many transient air passengers. The island's two Best Western properties are the closest lodging options to the University of the Virgin Islands, which acts to bolsters each property's penetration into the market's non-leisure market segments. This property is expected to maintain its current strategy of offering rates significantly lower than most of the island's other branded lodging properties.

The latest available data regarding occupancy and average rate for the Best Western Carib Beach Resort, was the property recorded an occupancy rate of 65% and an average rate of $120, resulting in a RevPAR of $78.

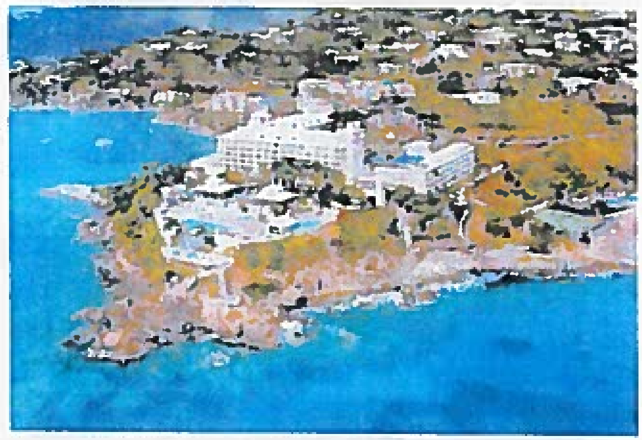
Overall, the property appeared to be in average to fair condition. Its accessibility is superior to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Coral Bay Marina Resort.

GURE 4-13 AGGREGATE SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

		Est. Segmentatio			Estimated 2010				Estimated 2011				Estimated 2012			
Property	Number of Rooms	Leisure	Meeting and Group	Total Competitive Level	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Secondary Properties	218	85 %	15 %	100 %	218	70 %	$155.00	$108.50	218	72 %	$162.00	$116.64	218	69 %	$173.00	$119.37
Totals/Averages	218	85 %	15 %	100 %	218	70.0 %	$155.00	$108.50	218	72.0 %	$162.00	$116.64	218	69.0 %	$173.00	$119.37

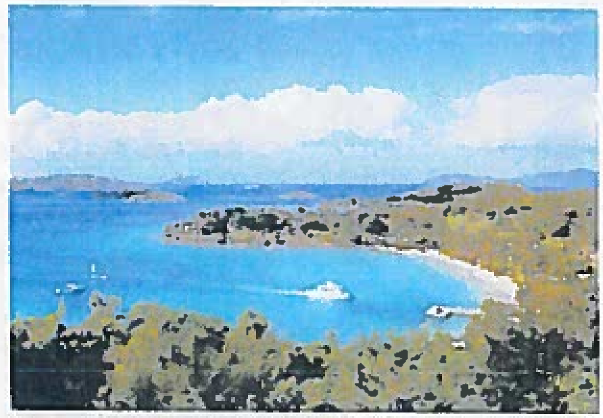
Additional Island Competitors

We have also reviewed other area lodging facilities to determine whether any may compete with the proposed subject property on a secondary basis. The following sets forth the pertinent characteristics of the secondary competitors.

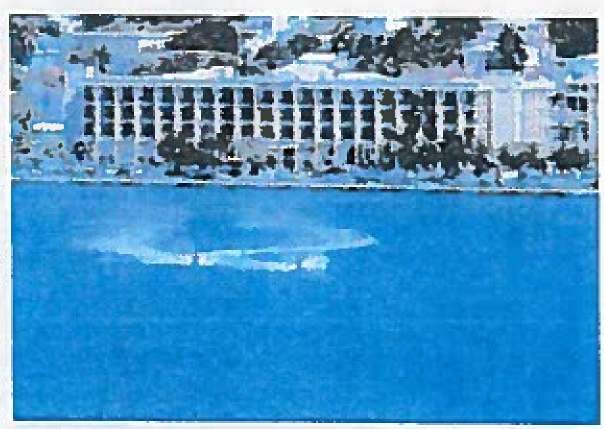


The Marriott Frenchman's Reef & Morning Star Resort, owned by DiamondRock Hospitality and operated by Marriott's corporate office, is located on the island of St. Thomas and positioned as an upper upscale hotel heavily focused on meeting and group business, as well as leisure business from loyal Marriott customers. The property originally opened with 418 units, but added 83 units in February of 1998 and converted 23 units to administrative offices in August of 2004. This resort-style property is divided between Frenchman's Reef and Morning Star Resort; Frenchman's Reef is located on the hillside overlooking a portion of Charlotte Amalie Harbor while Morning Star Resort is perched on a hill adjacent to a stretch of beach access. Morning Star is regarded as being slightly more exclusive and leisure-oriented than its complementing property, Frenchman's Reef. Collectively, this resort offers four food and beverage outlets, approximately 60,000 square feet of meeting space (approximately 125 square feet per guestroom), three outdoor pools and two whirlpools, two tennis courts along the ocean, a health club and spa, a business center, a water sports desk, a dive shop, and various retail outlets including a sundries shop and jewelry store.

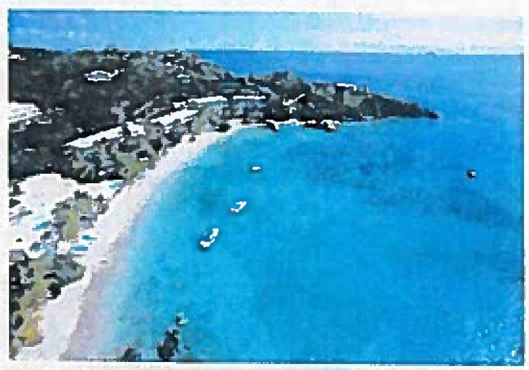
Given the large proportion (approximately 125 square feet per guestroom), total capacity (approximately 60,000 square feet), Marriott brand affiliation, and high quality of the meeting space, this property received a significant portion of the island's total meetings, incentives, conventions, and exhibitions (MICE) business. The primary competitor for the island's MICE business is the Sugar Bay Resort (formerly a Wyndham affiliated hotel). This Marriott is the largest property on the island at 478 total rooms which enables it to host large groups. The hotel's meeting facilities are utilized by local businesses and individuals as well as tourists for meetings and events.



Rosewood Caneel Bay Resort is located on the northwestern shoreline of the island of St. John, approximately two miles north of the Town of Cruz Bay, and is positioned as one of the unique luxury hotel resorts in the Caribbean. The resort is set on a peninsula that offers seven natural beaches, which together complete what is arguably one the most picturesque resort settings in the Caribbean. Rosewood Caneel Bay Resort has been in operation since 1956 and was founded by Laurence Rockefeller. Since the hotel's opening, many renovations have occurred and amenities have been added. Today, the hotel has 166 guest rooms of which several are located in Laurence Rockefeller's original private estate house. Amenities include various water activities, eleven tennis courts, a croquet lawn, a kids center, pro shop facilities, and gift shop. The Self Centre at Caneel offers guest spa treatments as well as wellness and stress management classes such as yoga, Pilates, and meditation. Food and beverage outlets include formal dining at the Turtle Bay Estate House Restaurant, two casual oceanfront dining facilities, and a private dining room called the Wine Room. In addition, Rosewood Caneel Bay features 12,268 square feet of meeting space. Reportedly, Caneel Bay achieved an occupancy rate of 64% in 2012 with an average rate of $655, resulting in a RevPAR of $419.

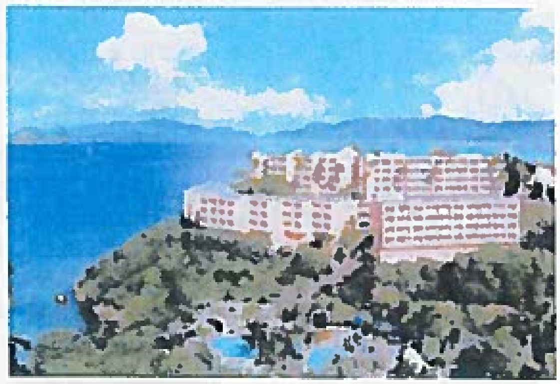


The Windward Passage Hotel is independently owned and operated (Windward Co.). This full-service lodging facility features a total of 150 guestrooms (in the case of the subject property, at 90% competitive the weighted room count is 135), a full-service restaurant (Windward Restaurant), a courtyard bar, 2,134 square feet of meeting space (approximately 14 square feet per room), and a business center. Recreational amenities include an outdoor pool, an exercise room, a putting green, and a casino. The hotel also features a variety of retail outlets in its ground-level courtyard; these include a spa, salon, SCUBA diving shop, and a tour/excursion kiosk. Windward Passage offers a free shuttle to and from the famed Magen's Bay each day. The hotel, which was built in 1967, was historically affiliated with InterContinental Hotel Group (IHG) and flagged as a Holiday Inn; the property began operating independently in April 2009. This hotel benefits from its location proximate to the CBD, the airport, the cruise ship terminal, and tourist-oriented retail and restaurant development along Veterans Drive. This property also maintains an unobstructed view of the ocean. Disadvantages include its lack of beachfront (mitigated in part by the free shuttle to and from Magen's Bay, and its lack of a brand affiliation. Given its facilities, location relative to the CBD and government offices, and price point, this property attracts a significant portion of the island's commercial and government business. As these travelers value brand affiliation very highly as frequent stay rewards may be accrued and applied towards personal use, the management team at Windward Passage has attempted to appeal to these travelers by offering a frequent stay program of its own. This recently-implemented and relatively unknown program offers guests one free night after ten paid nights.



The Secret Harbour Beach Resort is located in St. Thomas and is one of just a few boutique beach resorts on the island. The project features an intimate oceanfront location on a secluded cove. Situated on the east end of St. Thomas just one mile from the village of Red Hook and the ferry to St. John, Secret Harbour Beach Resort is just eight miles from Charlotte Amalie. The suites offered include studio, one-bedroom, and two-bedroom accommodations feature full kitchens, one or two bathrooms, and a large patio or balcony overlooking the cove. All units have a view of the water and are located either on the hill side for a sweeping panoramic scene, or beachfront for a close-up of the sparkling blue waters of the Caribbean. In-room internet access, daily maid service, and parking are complimentary. Secret Harbour Beach Resort is a designated marine sanctuary and the consistently calm waters have some of the most diverse and healthy sea life in the Virgin Islands, right off its beach. Aqua Action Dive & Watersports, provides equipment and training for snorkeling, scuba diving, kayaking, and paddle boarding. The Sunset Grille and Cruzan Beach Club offer a classic American Grill menu with island-style flair. Tennis courts, a fitness center, and a freshwater pool provide vacationers with many options.

Sugar Bay Resort & Spa is located on the northern side of St. Thomas featuring modern day conveniences while also reflecting the beauty and tranquility of the Caribbean. Expansive bay and ocean views set the Sugar Bay Resort & Spa apart from other St. Thomas hotels. All rooms accommodate either one king bed or two double beds. Rooms have



exterior corridor access, furnished balconies and Balinese-style furnishings, including a two-chair dining set. Rooms also feature a spacious bathroom with a shower/tub combination, marble floor and separate vanity. The resort view guestroom is 475 square feet and features panoramic resort and waterway views or bay views with partial ocean views. The ocean view guestroom contains 475 square feet and features panoramic ocean and island views. The one bedroom suite is 800 square feet and features a view of bay. It includes a bedroom, parlor and private balcony. Sugar Bay is the only true all-inclusive resort in St. Thomas, with the per-night rate on single or double occupancy rooms including meals, beverages, recreation, entertainment, use of non-motorized water sports equipment, access to the fitness center, and tax and gratuities.

Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject property's operating performance. Based upon our research and inspection, new supply considered in our analysis is presented in the following table.

FIGURE 4-14 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Estimated Opening Date	Development Stage
Proposed Coral Bay Marina Resort	130	100 %	January 1, 2017	Early Development
Westin St. John Resort	-79	100	January 1, 2015	Converting Rooms to Timeshare
Totals/Averages	51			

The Westin in St. John is currently converting three hotel buildings into timeshare units collectively containing 79 hotel rooms. Construction has started and completion is expected in the 4th quarter of 2014 with first occupancy in the 1st quarter of 2015. The owners will not receive a deed, but a certificate of ownership in a trust. The resort already has two timeshare phases contained in 6 hotel buildings. Over time, the entire resort is envisioned to convert all hotel rooms to dedicated timeshare units. As such, we have adjusted the unit count of the Westin Resort from 172 to 93 units in our analysis effective January 2015.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the proposed subject property may be positively or negatively affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect such risk.

Supply Conclusion

We have identified various properties that are expected to be competitive to some degree with the proposed subject property. We have also investigated potential increases in competitive supply in this St. John submarket. The Proposed Coral Bay Marina Resort should enter a dynamic market of varying product types and price points. Next, we will present our forecast for demand change, using the historical supply data presented as a starting point.

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the competitors discussed previously in this section for whom the custom STR Trend report was ordered. Note that performance results are estimated and rounded for the competition, and in some cases assigned a competitive weighting if the hotel was classed as a secondary competitor to the subject hotel. In this respect, the information in the table below differs from the previously presented STR data; the following data is the date that is utilized in our supply and demand analysis developed for this report.

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FIGURE 4-15 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2010	146,978	—	208,050	—	70.6 %	$291.39	—	$205.85	—
Est. 2011	151,022	2.8 %	208,050	0.0 %	72.6	301.73	3.6 %	219.03	6.4 %
Est. 2012	148,135	(1.9)	208,230	0.1	71.1	319.83	6.0	227.53	3.9
Avg. Annual Compounded Chg., Est. 2010-Est. 2012		0.4 %		0.0 %			4.8 %		5.1 %

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2012 distribution of accommodated-room-night demand as follows.

FIGURE 4-16 ACCOMMODATED ROOM NIGHT DEMAND

Market Segment	Marketwide Accommodated Demand	Marketwide Percentage of Total
Leisure	125,915	85 %
Meeting and Group	22,220	15
Total	**148,135**	**100 %**

The market's demand mix comprises leisure demand, with this segment representing roughly 85% of the accommodated room nights in this subject competitive hotel market. The remaining portion comprises meeting and group at 15%.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room-night demand.

Leisure Segment

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

Considering both current and historical trends, we project demand change rates of 2.0% in 2013, 2.0% in 2014, and 2.0% in 2015. After these first three projection years, we have forecast demand change rates of 2.0% in 2016 and 2.0% in 2017.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week, most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food and beverage and/or banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season, when greater discounts are usually available; these groups generate limited ancillary revenues. Association demand is generally divided on a geographical basis, with national, regional, and state associations representing the most common sources. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends. The profile and revenue potential of associations varies depending on the group and the purpose of their meeting or event.

Considering both current and historical trends, and our defined competitive hotel market, we have conservatively forecast no increase in the existing level of meeting oriented room night demand into the foreseeable future.

Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, two segments were defined as representing the subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following average annual compounded market-segment growth rates.

HVS

FIGURE 4-17 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

	Annual Growth Rate								
Market Segment	2013	2014	2015	2016	2017	2018	2019	2020	2021
Leisure	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Meeting and Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Base Demand Growth	**1.7 %**	**1.7 %**	**1.7 %**	**1.7 %**	**1.7 %**	**1.7 %**	**1.7 %**	**1.7 %**	**1.7 %**

Latent Demand

A table presented earlier in this section illustrated the accommodated-room-night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room-night demand that has not been realized by the existing competitive supply; this type of demand can be divided into unaccommodated demand and induced demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated-room-night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future, and it is therefore necessary to quantify this demand.

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market sells out many nights during the year.

The following table presents our estimate of unaccommodated demand in the subject market.

FIGURE 4-18 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Leisure	125,915	2.9 %	3,640
Meeting and Group	22,220	2.9	642
Total	**148,135**	**2.9 %**	**4,282**

Accordingly, we have forecast 2.9% of the base-year demand to be classified as unaccommodated based upon an analysis of monthly and weekly peak demand and sell-out trends.

Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. The following table summarizes our estimate of induced demand.

FIGURE 4-19 INDUCED DEMAND ESTIMATE

Market Segment	2017	2018	2019	2020	2021
Leisure	5,647	5,647	5,647	5,647	5,647
Meeting and Group	0	0	0	0	0
Total	5,647	5,647	5,647	5,647	5,647

Accommodated Demand and Market-wide Occupancy

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.

FIGURE 4-20 FORECAST OF MARKET OCCUPANCY

	2015	2016	2017	2018	2019	2020	2021
Leisure							
Base Demand	133,622	136,294	139,020	141,801	144,637	147,529	150,480
Unaccommodated Demand	3,862	3,940	4,019	4,099	4,181	4,264	4,350
Induced Demand	0	0	5,647	5,647	5,647	5,647	5,647
Total Demand	137,484	140,234	148,685	151,546	154,464	157,441	160,476
Growth Rate	2.0 %	2.0 %	6.0 %	1.9 %	1.9 %	1.9 %	1.9 %
Meeting and Group							
Base Demand	22,220	22,220	22,220	22,220	22,220	22,220	22,220
Unaccommodated Demand	642	642	642	642	642	642	642
Induced Demand	0	0	0	0	0	0	0
Total Demand	22,863	22,863	22,863	22,863	22,863	22,863	22,863
Growth Rate	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Totals							
Base Demand	155,842	158,515	161,241	164,021	166,857	169,750	172,700
Unaccommodated Demand	4,505	4,582	4,661	4,741	4,823	4,907	4,992
Induced Demand	0	0	5,647	5,647	5,647	5,647	5,647
Total Demand	160,347	163,097	171,548	174,409	177,327	180,303	183,339
less: Residual Demand	22,872	25,349	5,671	7,171	8,976	10,896	12,920
Total Accommodated Demand	137,475	137,748	165,877	167,238	168,351	169,407	170,419
Overall Demand Growth	(9.7) %	0.2 %	20.4 %	0.8 %	0.7 %	0.6 %	0.6 %
Market Mix							
Leisure	85.7 %	86.0 %	86.7 %	86.9 %	87.1 %	87.3 %	87.5 %
Meeting and Group	14.3	14.0	13.3	13.1	12.9	12.7	12.5
Existing Hotel Supply	570	570	570	570	570	570	570
Proposed Hotels							
Proposed Coral Bay Marina Resort [1]			130	130	130	130	130
Westin St. John Resort [2]	-79	-79	-79	-79	-79	-79	-79
Available Rooms per Night	179,215	179,215	226,665	226,665	226,665	226,665	226,665
Nights per Year	365	365	365	365	365	365	365
Total Supply	491	491	621	621	621	621	621
Rooms Supply Growth	-13.9 %	0.0 %	26.5 %	0.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	**76.7 %**	**76.9 %**	**73.2 %**	**73.8 %**	**74.3 %**	**74.7 %**	**75.2 %**

[1] Opening in January 2017 of the 100% competitive, 130-room Proposed Coral Bay Marina Resort

[2] Opening in January 2015 of the 100% competitive, -79-room Westin St. John Resort

These room-night projections for the market area will be used in forecasting the proposed subject property's occupancy and average rate in Chapter 6.

5. Description of the Proposed Project

The quality of a lodging facility's physical improvements has a direct influence on marketability, attainable occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. This section investigates the subject property's proposed physical improvements and personal property in an effort to determine how they are expected to contribute to attainable cash flows.

CORAL BAY MARINA RESORT - SITE LAYOUT

It should be factually noted that the developers' architect designed the site layout of the proposed hotel, as presented herein, based on 65 two-bedroom hotel units (130 hotel room keys) with each unit containing approximately 1,565 square feet. The original development plan was to introduce large condominium units with the intent to sell-out the inventory to prospective buyers. Based on our findings it is clearly evident the "for sale" of condominiums in the subject's market at this particular point in time does not represent the highest and best use of the land. It is our recommendation the units be designed with flexibility in mind and be more considerate of "brand standards" regarding unit sizes. We recommend a typical hotel room size more in line with "all-suite" room configurations that typically range from 450 to 500 square feet. In the future, this may allow the developer to have a saleable product and convert part of the hotels inventory to timeshare use or sell the inventory to third party owners that would participate in the resort's rental program.

It is our recommendation that the process of determining future project density to be a joint effort, collectively including the developer, the architect, and knowledgeable representatives from the selected hotel brand to assist in presenting an applicable model of the future site plan. For the purpose of this study, we have made the extraordinary assumption that the minimum room inventory census is 130-rooms.

We have also assumed that the marina and related facilities have been built and are functional prior to the construction of the resort hotel. Over the development period of the marina, site infrastructure will be completed including a dredging of the harbor, which will be utilized to accommodate a beach shoreline for the future hotel. We have assumed the marina and the resort will be constructed over the following development timeline.

FIGURE 5-1 PROPOSED DEVELOPMENT TIMELINE FOR MARINA AND RESORT HOTEL

Date of Study	Rezoning/Land-Use Amendment	Development of Marina	Opening of the Marina	Development of Resort	Opening of the Resort
August 19, 2013	August 2013 - July 2014 12-months	August 2014 - July 2015 9-12 months	August 1, 2015	August 2015 - December 2016 15-17 months	January 1, 2017

Project Overview

The Proposed Coral Bay Marina Resort will be improved with a full-service, resort lodging facility that will be affiliated with an internationally-recognized hotel brand. The hotel development and related supporting facilities under consideration will be known as the Coral Bay Marina Resort. The resort will also incorporate an 85 wet-slip mega yacht marina. The proposed hotel is expected to open on January 1, 2017 and will feature 130 rooms, various restaurant venues, a lounge and open-air bar, 2,500 square feet of meeting space, two freshwater outdoor pools and whirlpool, an exercise room, a business center, a gift shop, and a guest laundry room.

Summary of the Facilities

Based on information provided by the proposed subject property's development representatives, the following table summarizes the facilities that are expected to be available at the proposed subject property. Overall, we recommend the vision of the property to be a low-profile, conservative appearance, which blends into and takes advantage of the natural surroundings. All of the improvements should have consistency with low-rise buildings, not exceeding two-three stories. The design and layout of the resort is intended to preserve the natural beauty of the island – in particular, the resort's picturesque location and its unspoiled beaches.

FIGURE 5-2 RECOMMENDED FACILITIES SUMMARY

Guestroom Configuration	% of Total	Number of Units
King	19%	25
Queen	19%	25
Suite	31%	40
One Bedroom Suite	15%	20
Two Bedroom Suite	15%	20
Total		130
Food & Beverage Facilities		**Seating Capacity**
Breakfast Dining Area		75
Lounge/Bar		45
Indoor Meeting & Banquet Facilities		**Square Footage**
Meeting Space		2,500
Total		2,500
Amenities & Services		
Outdoor Swimming Pool		Exercise Room/Fitness Center
Outdoor Whirlpool		Business Center/Lobby Workstation
Vending Areas		Gift Shop/Sundries Counter/Market Pantry
Guest Laundry Facility		Sport Court
Infrastructure		
Parking Spaces		To be determined
Elevators		Not Applicable
Life-Safety Systems		Sprinklers, Smoke Detectors
Construction Details		Steel, Reinforced Concrete

In addition to the guest room amenities and meeting space, we recommend that the following facilities and amenities be available on site:

- All guestrooms will feature balconies offering ocean views;
- Native tropical landscaping that ensures guests privacy and creates a true resort experience;
- Roughly, ±2,500 square feet of meeting space. This equates to 20 square feet of meeting space per guestroom. Some portion of this space could be multi-purpose.
- One three-meal restaurant with a large dedicated poolside outdoor dining area offering:
- Complimentary full cooked-to-order breakfast every morning; and
- Complimentary beverages at Manager's receptions each weekday evening;
- A pool bar/grill (shared kitchen with the three meal);
- Two resort-style infinity-edge swimming pools and expansive deck areas with views of Coral Bay Harbor and the marina;
- One pool should be designated as an adult pool, while the other should include child friendly water features, like a lazy river or waterslide.
- A dedicated lounge room for early arriving or late departing guests; the lounge should feature lockers for guests to secure personal items and at least four private bathrooms with a shower;
- 3rd party spa services offered in pool side cabanas or in guestrooms;
- Fitness center;
- 24 hour business center;
- Gift/sundry shop;
- Tour operator on site to facilitate guest access to all recreation activities available on and off island;
- Direct access to other St. John area beaches via a shuttle service;
- An on-site car rental office;
- Proper security throughout the hotel; and
- Adequate self-parking.

Guests arriving by air should be greeted by a hotel representative at the St. Thomas' Cyril E. King Airport. Upon landing, guests can proceed with the check-in process as part of their airport reception and while they are being escorted on a taxi to either Red Hook or Charlotte Amalie for a ferry ride to St. John, and the subsequent taxi shuttle to the subject hotel.

Due to the seasonality issues that pertain to the demand in the market, room count is very important given that a significant portion of any given year's revenue must be earned in a select period of months. On average, we estimate that a typical hotel on St. Thomas will earn approximately 60% of its annual revenue over the course of a five-month period. Having a larger room count would allow for higher revenues in the peak-season when demand is high; however, in the off-season, when demand is minimal, a larger room count will leave the subject hotel exposed to more risk. The day-to-day operating costs of a larger hotel increase significantly with each additional room; without demand to fill the rooms in the off-season, a large property will lose revenues that were earned in the peak-season. With careful consideration to the seasonality of the market, the total demand levels (accommodated and unaccommodated) and the projections of demand growth, and consideration of the existing hotel market and a number of other factors, we recommend a room count of 130. This room count will allow the future operator to capture a significant amount of revenue in the peak-season while mitigating the risk associated with a large hotel in the off-season.

Additional consideration has been given to the room count to take into account higher than normal average lengths-of-stay. We are of the opinion that a portion of the development will be utilized by yachters that may require longer lengths-of-stay. For this reasons, we have dedicated approximately 30% of the room count to one- and two-bedroom suite configuration. This would also give the developers the flexibility to potentially sell units as part of an asset exit strategy to prospective yachters or seasonal vacationers that in turn would enter into a management agreement with the property owner/management to release the unit while not in use and operate within an organized hotel-like transient rental program.

Site Improvements and Hotel Structure

Once guests enter the site, ample parking will be available on the surface lot around the perimeter of the hotel. Site improvements will include freestanding signage, which will be located on the western and eastern sides of the site (additional signage will be placed on the exterior of the building). We assume that all signage will adequately identify the property and meet brand standards. Planned landscaping should allow for a positive guest impression and competitive exterior appearance. Sidewalks will be present along the front entrance and around the perimeter of the hotel. Other site improvements will include an outdoor pool with sundeck, a barbeque and picnic area, and a trash area toward the rear of the property. Overall, the planned site improvements for the property appear adequate.

As currently designed by the architectural firm Jaredian Design Group, the hotel structure will comprise nine one-, two- and three-story buildings, which will be constructed of steel and reinforced concrete. The exterior of the hotel will be finished with stucco and will feature stone accents on the ground level and near the main entrance. Elevator service will be provided to the three-story structures (four buildings in total). The hotel's roof will be made of wood trusses, covered with plywood and roof tiles or composition shingles. Double-paned windows will reduce noise transmission into the rooms. Heating and cooling will be provided by through-the-wall units and several large units for the public areas. Overall, the planned building components appear normal for a hotel of this type and should meet the standards for this market. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that may impact the future operating potential of the hotel or delay its assumed opening date. It is important to note that many aspects of the future facilities and potential design characteristics referenced throughout this report refer to the prototype design and development specifications set forth by various international hotel brands.

Public Areas

The subject property will contain food and beverage outlets. We recommend that these facilities take advantage of the picturesque views of Coral Bay. The lounge and bar should take the advantage of an open-air concept offering lunch and dinner, as well as drinks, in a casual atmosphere. It would also be an area in the resort that offers television viewing.

In order to have the ability of attracting some groups to the resort, the resort should be equipped with audio systems and some set-up capabilities for group functions. The outdoor restaurant/lounge as well as surrounding outdoor areas could be utilized as function space. Although the subject property will not market itself specifically toward large groups, some limited amount of meeting space and facilities, as well as full catering services, should be available for outdoor events such as weddings and reunions.

The subject property will offer two freshwater, outdoor swimming pools, a fitness center, massage facilities, a self center, and beach accessibility directly from the property, and various water sport activities. All of these facilities will be interspersed throughout the property, with the tennis courts, exercise facilities, and the outdoor swimming pool being offset from the beach areas of the resort, in the southern section of the property. In addition, the facility will feature a kid's center, which also offers a nanny program.

The Coral Bay Marina Resort will also offer a gift shop, situated in the main lobby building. A small room, which serves as a business center, will be located directly adjacent to the front desk.

Guestrooms

Each guestroom is recommended to feature large windows, a coffeemaker, bathrobes, complimentary beverages upon arrival, a mini-bar/refrigerator, a hair dryer, an iron and an ironing board, an in-room safe, good internet access throughout the resort, flat screen TV's, a ceiling fan, an in-room 'sitting area', and either a furnished patio or a balcony.

Back-of-the-House

The hotel will be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a full-service kitchen to serve the needs of the restaurants and meeting room operation. These spaces should be adequate for a hotel of this type and should allow for the efficient operation of the property under competent management.

A majority of the subject property's mechanical and support systems will be located along the eastern boundary of the property, and should include a reverse osmosis plant and the sewer treatment plant. The capacity of the reverse osmosis treatment plant should exceed the needs of the resort. The filtered gray water could be stored in a cistern and used for irrigation of the property's landscaping. The dried sludge would be first stored in a bin and then trucked off site to a legal landfill. The subject property should maintain a generator plant to serve as backup emergency power. The plant should have the ability to provide the entire resort with electric power, should "black-outs" – or prolonged power outages occur.

ADA and Environmental

We assume that the property will be built according to all pertinent codes and brand standards. Moreover, we assume its construction will not create any environmental hazards (such as mold) and that the property will fully comply with the Americans with Disabilities Act.

Capital Expenditures

Our analysis assumes that, after its opening, the hotel will require ongoing upgrades and periodic renovations in order to maintain its competitive level in this market. These costs should be adequately funded by the forecasted reserve for replacement, as long as a successful, ongoing preventive-maintenance program is employed by hotel staff.

Construction Budget

A construction budget for the 130-room subject hotel is not yet available.

Conclusion

Overall, the subject property should offer a well-designed, functional layout of support areas and guestrooms. All typical and market-appropriate features and amenities appear to be included in the hotel's design. We assume that the building will be fully open and operational on the assumed opening date and will meet all local building codes and brand standards. Furthermore, we assume that the hotel staff will be adequately trained to allow for a successful opening and that pre-marketing efforts will have introduced the product to major local accounts at least six months in advance of the opening date.

The resort's overall appearance and simplistic accommodations will match its reputation as an upper upscale quality property focused on the natural beauty of its setting within Coral Bay.

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6. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. Most of a lodging facility's other revenue sources (such as food, beverages, other operated departments, and rentals and other income) are driven by the number of guests, and many expense levels vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share. A complete discussion of the concept of penetration is presented in the addenda.

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competitors are set forth for each segment for the base year.

FIGURE 6-1 HISTORICAL PENETRATION RATES

Property	Leisure	Meeting and Group	Overall
Ritz-Carlton Saint Thomas	100 %	100 %	100 %
Westin St. John Resort	104	104	104
Secondary Competition	97	97	97

The Westin St. John Resort achieved the highest penetration rate within the leisure segment. The highest penetration rate in the meeting and group segment was also achieved by the Westin St. John Resort.

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Forecast of Subject Property's Occupancy

Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply, or a change in the relative penetration performance of one or more hotels in the competitive market.

Our projections of penetration, demand capture, and occupancy performance for the subject property account for these types of adjustments to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the subject property and its competitors for each market segment in each projection year may vary somewhat from the penetration factors delineated in the previous tables.

The following tables set forth, by market segment, the projected adjusted penetration rates for the subject property and each hotel in the competitive set.

FIGURE 6-2 LEISURE SEGMENT ADJUSTED PENETRATION RATES

Hotel	2013	2014	2015	2016	2017	2018	2019	2020	2021
Ritz-Carlton Saint Thomas	100 %	100 %	100 %	100 %	101 %	101 %	100 %	100 %	100 %
Westin St. John Resort	104	104	104	104	106	105	104	104	104
Secondary Competition	97	97	97	97	98	98	97	97	97
Proposed Coral Bay Marina Resort	—	—	—	—	**94**	**96**	**98**	**100**	**100**
Westin St. John Resort	—	—	100	100	101	101	100	100	100

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FIGURE 6-3 MEETING AND GROUP SEGMENT ADJUSTED PENETRATION RATES

Hotel	2013	2014	2015	2016	2017	2018	2019	2020	2021
Ritz-Carlton Saint Thomas	100 %	100 %	100 %	100 %	106 %	105 %	104 %	104 %	104 %
Westin St. John Resort	104	104	104	104	111	110	109	109	109
Secondary Competition	97	97	97	97	103	102	101	101	101
Proposed Coral Bay Marina Resort	—	—	—	—	**75**	**79**	**83**	**83**	**83**
Westin St. John Resort	—	—	100	100	107	106	104	104	104

These positioned segment penetration rates result in the following market segmentation forecast.

FIGURE 6-4 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2017	2018	2019	2020	2021
Leisure	89 %	89 %	89 %	89 %	89 %
Meeting and Group	11	11	11	11	11
Total	100 %	100 %	100 %	100 %	100 %

The proposed subject property's occupancy forecast is set forth as follows, with the adjusted projected penetration rates used as a basis for calculating the amount of captured market demand.

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FIGURE 6-5 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2017	2018	2019	2020
Leisure				
Demand	143,791	145,336	146,666	147,946
Market Share	19.8 %	20.1 %	20.6 %	20.9 %
Capture	28,410	29,209	30,215	30,971
Penetration	94 %	96 %	98 %	100 %
Meeting and Group				
Demand	22,086	21,902	21,685	21,462
Market Share	15.6 %	16.6 %	17.5 %	17.5 %
Capture	3,453	3,629	3,790	3,751
Penetration	75 %	79 %	83 %	83 %
Total Room Nights Captured	**31,864**	**32,838**	**34,006**	**34,722**
Available Room Nights	47,450	47,450	47,450	47,450
Subject Occupancy	**67 %**	**69 %**	**72 %**	**73 %**
Marketwide Available Room Nights	226,665	226,665	226,665	226,665
Fair Share	**21 %**	**21 %**	**21 %**	**21 %**
Marketwide Occupied Room Nights	165,877	167,238	168,351	169,407
Market Share	**19 %**	**20 %**	**20 %**	**20 %**
Marketwide Occupancy	**73 %**	**74 %**	**74 %**	**75 %**
Total Penetration	**92 %**	**94 %**	**96 %**	**98 %**

Based on our analysis of the proposed subject property and market area, we have selected a stabilized occupancy level of 73%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

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Average Rate Analysis

One of the most important considerations in estimating the value of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

The proposed Hotel at Coral Bay's average rate will be projected using a:

(1) **competitive positioning** method, and;

(2) through an analysis of **seasonality** of average rates.

Competitive Position

Although the average rate analysis presented here follows the occupancy projection, these two statistics are highly correlated; in reality, one cannot project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the historical average rate and the RevPAR of the subject property's future primary competitors.

FIGURE 6-6 BASE YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS

Property	Estimated 2012 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Ritz-Carlton Saint Thomas	$494.00	154.5 %	$350.74	154.2 %
Westin St. John Resort	318.00	99.4	235.32	103.4
Average - Primary Competitors	$406.30	127.0 %	$294.42	129.4 %
Average - Secondary Competitors	173.00	54.1	119.37	52.5
Overall Average	**$319.83**		**$227.53**	

The defined primarily competitive market realized an overall average rate of $406.30 in the 2012 base year, improving from the 2011 level of $387.14.

We have forecast an average rate position of $288 in base-year 2012 dollars, for the proposed subject hotel. We believe this rate position reflects the intended upper upscale positioning of the resort; note that this rate is approximately $30 below the 2012 ADR of the Westin. Based on our analysis, we have further forecast a stabilized average rate position of $344 for the proposed subject property (assuming a 90% average rate penetration as further shown in the table below).

Seasonality

As discussed in the Supply and Demand Analysis section, the average rates are much higher during the peak season with a sharp drop-off during the non-peak season. HVS has concluded, based on research conducted on the selected market, that the overall peak season *typically* runs from December through April, and the non-peak season typically runs from May through November. *This pattern will change slightly from year to year, depending upon the date that Easter occurs. The peak season typically ends after the completion of the Easter holidays.*

Since room rates vary dramatically between the two seasons, separately analyzing rate by both the peak and non-peak season will ultimately enable us to arrive at a more accurate annual rooms revenue estimate. The first table on the following page provides some important insights into the effect of seasonality on demand, rates, and total financial performance.

A review of this data shows that historically 38% to 47% of total annual room night demand has occurred within the peak season. The data also shows that 51% to 60% of the total annual room revenue generated is achieved within the peak season. And finally, the data shows that historically the average rate achieved during the non-peak season is 53% to 62% of the average rate achieved during the peak season. It should be note that demand also spikes during the months of June and July, albeit at significantly discounted average rates.

The second table on the following page illustrates the competitive positioning of the subject property at 90% of the competitive market. Calendar year 2012 was utilized as a base year with an adjustment for peak and non-peak rates calculated by utilizing the fiscal 2012/13 fiscal year indexes (as highlighted).

Even though our forecast does include a 5% first year discounting of the average rate, it is highly suggested that consideration be given to a normal rate discounting strategy be employed while the resort works to gain exposure, market recognition, and build business as it moves toward achieving our forecasted level of stabilized occupancy.

GURE 6-7 SEASONAL OCCUPANCY, ADR, REVPAR, SUPPLY, DEMAND, AND REVENUE – AVERAGES, INDEXES, AND DISTRIBUTION

	Occupancy	Index	ADR	Index	RevPAR	Index	Supply	Demand	Distribution	Revenue	Distribution
Peak - Dec. 12 - April 13	79.7	1.12	377.28	1.22	300.69	1.37	86,163	68,658	46%	25,903,472	56%
Non-Peak - May 12 - Nov 12	64.7	0.91	252.28	0.81	163.23	0.74	122,622	79,394	54%	20,029,726	44%
Total TTM 05/12 - 04/13	70.9		310.25		219.97		208,785	148,052		45,933,198	
Peak - Dec. 11 - April 12	80.6	1.09	409.39	1.32	329.97	1.44	86,616	69,825	45%	28,585,564	59%
Non-Peak - May 11 - Nov 11	69.1	0.94	228.90	0.74	158.17	0.69	123,264	85,196	55%	19,500,985	41%
Total TTM 05/11 - 04/12	73.9		310.19		229.23		209,880	155,021		48,086,549	
Peak - Dec. 10 - April 11	77.2	1.11	387.20	1.31	298.92	1.46	87,156	67,271	46%	26,047,443	60%
Non-Peak - May 10 - Nov 10	64.1	0.92	216.23	0.73	138.60	0.68	123,692	79,267	54%	17,139,521	40%
Total TTM 05/10 - 04/11	69.5		294.72		204.83		210,848	146,538		43,186,964	
Peak - Dec. 09 - April 10	81.3	1.13	365.84	1.28	297.43	1.44	87,278	70,926	47%	25,947,510	59%
Non-Peak - May 09 - Nov 09	65.8	0.91	217.92	0.76	143.39	0.89	123,692	81,389	53%	17,736,665	41%
Total TTM 05/09 - 04/10	72.2		286.80		207.07		210,970	152,315		43,684,175	
Peak - Dec. 08 - April 09	73.7	1.06	372.75	1.23	274.72	1.31	87,278	64,290	44%	23,964,170	54%
Non-Peak - May 08 - Nov 08	66.2	0.96	247.67	0.82	163.96	0.78	123,692	81,855	56%	20,272,873	46%
Total TTM 05/08 - 04/09	69.3		302.69		209.77		210,970	146,145		44,237,043	
Peak - Dec. 07 - April 08	80.3	1.06	430.55	1.33	345.73	1.41	87,278	70,096	38%	30,179,924	51%
Non-Peak - May 07 - Nov 07	73.6	0.97	257.83	0.80	189.77	0.77	155,534	114,423	62%	29,502,065	49%
Total TTM 05/07 - 04/08	76.0		323.45		245.82		242,812	184,518		59,681,988	

GURE 6-8 SUBJECT PROPERTY'S AVERAGE RATE FORECAST AT 90% PENETRATION RATE

		2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2012 [1]	2013	2014	2015	2016	2017	2018	2019	2020
Market	Peak	431	373	366	387	409	377	421	409	421	434	447	460	474	488	503
	Off-Peak	258	248	218	216	229	252	236	229	236	243	250	258	266	274	282
	Total	323	303	287	295	310	310	319	310	319	328	338	348	359	370	381
Annual Growth Rate									-3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
90% Penetration w/o discounts	Peak												414	426	439	452
	Off-Peak												232	239	246	254
	Total												314	323	333	343

[1] Adjustment from fiscal to calender year for base year (2012)
Peak season index based on a factor of 1.32 for 2012. Off-Peak season based on a factor of 0.74.

In the above table, we have projected average rate growth of -3.0% in 2013. The STR Trend Report indicates that the aggregate average rate for the competitive market decreased 6.3% in 2013 year-to-date through April, compared to the same period in 2012. We believe average rate of growth will slightly improve through the remainder of the year, yet consideration must be given to the fact that the majority of room demand is accommodated within the first four months of the year.

The average compounded growth rate over the 5-year period is 1.7%. However, the average growth over the past 3-year period was 4.2% on a compounded basis. Recently, the average rate increased 2.9% in 2010, 3.7% in 2011 and rising significantly in 2012 by 6.0%.

Over the past three year period, it appears that RevPAR gains have been bolstered by the influence of strong occupancy increases in 2010 through 2011, yet declined in 2012. In fact, occupied room nights remained relatively flat during this time frame. We are of the opinion, in the short-term, RevPAR gains will likely come from average rate increases.

In general, we are forecasting negative occupancy growth for the region in 2013, as hotel operators continue to focus on average rate increases amid general growth in room night demand levels. Now that demand levels are beginning to recover and occupancy is beginning to re-stabilize (since its large recession influenced decline in 2009), market participants appear confident that most of the future RevPAR growth for the hotel market is anticipated to come from average rate increases.

Thereafter beginning in 2014, we have forecast annual growth of 3.0% per year until stabilization in 2020. In 2013-2014, it is our opinion that the macro market should continue to rebound.

Conclusions

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed.

FIGURE 6-9 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	71.1 %	—	$319.83	—	—	$288.00	90.0 %
2013	72.3	-3.0 %	310.24	—	-3.0 %	279.36	90.0
2014	73.2	3.0	319.54	—	3.0	287.74	90.0
2015	76.7	3.0	329.13	—	3.0	296.37	90.0
2016	76.9	3.0	339.00	—	3.0	305.26	90.0
2017	73.2	3.0	349.17	67.0 %	3.0	314.42	90.0
2018	73.8	3.0	359.65	69.0	3.0	323.85	90.0
2019	74.3	3.0	370.44	72.0	3.0	333.57	90.0
2020	74.7	3.0	381.55	73.0	3.0	343.58	90.0

As illustrated above, a -3.0% rate of change is expected for the proposed subject property's positioned base year 2012 room rate in 2013. This is followed by growth rates of 3.0% and 3.0% in 2014 and 2015, respectively. The St. Thomas-St. John market should enjoy positive rate growth through the near term. The proposed subject property's rate position should reflect growth similar market trends because of the proposed hotel's new facility and anticipated strong brand affiliation. The proposed subject property's ADR penetration rate is consistently forecast at 90% of the overall ADR forecast for the subject hotel's competitive set.

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject property's average rates in the initial operating period have been discounted to reflect this likelihood. We forecast a 5.0% discount to the proposed subject property's forecast room rates in the first operating year, which would be typical for a new operation of this type.

The following occupancies and average rates will be used to project the subject property's rooms revenue; this forecast reflects years beginning on January 1, 2017, which correspond with our financial projections.

FIGURE 6-10 FORECAST OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year		Occupancy	Average Rate	Discount	Average Rate After Discount	RevPAR
2017		67 %	$314.42	5.0 %	$298.70	$200.13
2018		69	323.85	0.0	323.85	223.46
2019		72	333.57	0.0	333.57	240.17
2020	Stabilized	73	343.58	0.0	343.58	250.81

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7. Projection of Income and Expense

In this chapter of our report, we have compiled a forecast of income and expense for the proposed subject property. This forecast is based on the facilities program set forth previously, as well as the occupancy and average rate forecast discussed previously.

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The ten-year period reflects the typical holding period of large real estate assets such as hotels. In addition, the ten-year period provides for the stabilization of income streams and comparison of yields with alternate types of real estate. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

Comparable Operating Statements

In order to project future income and expense for the proposed subject property, we have included a sample of individual comparable operating statements from our database of hotel statistics. All financial data are presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense.

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FIGURE 7-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2012	2011/12	2011/12	2011	2010	2012
Number of Rooms:	170 to 210	100 to 140	170 to 210	170 to 210	190 to 240	130
Days Open:	365	366	365	365	365	365
Occupancy:	61%	70%	74%	62%	57%	73%
Average Rate:	$336	$290	$283	$317	$326	$271
RevPAR:	$205	$204	$209	$195	$185	$198
REVENUE						
Rooms	46.2 %	70.6 %	45.1 %	45.0 %	63.3 %	60.6 %
Food	20.4	18.4	28.6	21.5	17.6	27.7
Beverage	6.7	7.6	11.5	6.6	7.4	0.0
Rental Income	3.7	2.9	0.0	3.9	0.0	0.0
Garage/Parking	13.8	0.0	0.0	14.0	0.0	0.0
Other	4.6	0.0	0.0	4.5	4.0	0.0
Other Operated Departments	22.1	2.9	15.9	22.5	4.1	5.5
Rentals & Other Income	4.6	0.5	(1.0)	4.4	7.7	6.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	24.4	28.8	19.7	26.3	16.9	26.0
Food & Beverage	80.5	79.7	71.0	80.2	71.7	80.0
Other Operated Departments	49.0	98.9	62.1	48.8	75.4	70.0
Rentals & Other Income	102.5	0.0	0.0	100.1	8.1	0.0
Total	48.6	43.9	47.2	49.8	32.3	41.8
DEPARTMENTAL INCOME	51.4	56.1	52.8	50.2	67.7	58.2
OPERATING EXPENSES						
Administrative & General	9.4	11.9	7.9	9.0	8.1	9.1
Marketing	7.7	2.7	5.4	7.1	5.1	6.2
Property Operations & Maintenance	3.0	5.2	4.0	2.9	6.2	4.6
Utilities	3.0	2.7	2.2	3.2	4.1	3.7
Total	23.1	22.5	19.5	22.2	23.5	23.7
HOUSE PROFIT	28.3	33.6	33.3	28.0	44.2	34.6
Management Fee	2.7	4.0	3.1	2.7	3.2	5.0
INCOME BEFORE FIXED CHARGES	25.6	29.6	30.2	25.3	41.0	29.6
FIXED EXPENSES						
Property Taxes	1.9	3.9	1.2	2.0	1.5	0.0
Insurance	0.6	1.1	2.7	0.7	7.6	2.5
Ground Lease	0.5	0.0	0.0	0.6	0.0	0.0
Equipment Lease	4.4	0.0	0.0	7.1	0.0	0.0
Miscellaneous Fixed Expenses	5.9	0.0	0.0	9.0	0.1	0.0
Reserve for Replacement	2.7	0.0	4.2	2.7	2.1	4.0
Total	11.1	5.0	8.1	14.4	11.3	6.5
NET INCOME	14.5 %	24.6 %	22.1 %	10.9 %	29.7 %	23.1 %

* Departmental expense ratios are expressed as a percentage of departmental revenues

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FIGURE 7-2 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2012	2011/12	2011/12	2011	2010	2012
Number of Rooms:	170 to 210	100 to 140	170 to 210	170 to 210	190 to 240	130
Days Open:	365	366	365	365	365	365
Occupancy:	61%	70%	74%	62%	57%	73%
Average Rate:	$336	$290	$283	$317	$326	$271
RevPAR:	$205	$204	$209	$195	$185	$198
REVENUE						
Rooms	$74,704	$74,779	$76,185	$71,327	$67,638	$72,267
Food	32,909	19,533	48,339	34,139	18,808	32,984
Beverage	10,874	8,066	19,381	10,393	7,930	0
Rental Income	5,909	3,049	0	6,247	0	0
Garage/Parking	22,281	0	0	22,156	0	0
Other	7,478	0	0	7,200	4,319	0
Other Operated Departments	35,668	3,049	26,847	35,603	4,366	6,597
Rentals & Other Income	7,429	566	(1,651)	7,022	8,192	7,388
Total	161,584	105,992	169,101	158,484	106,934	119,236
DEPARTMENTAL EXPENSES						
Rooms	18,200	21,549	15,016	18,748	11,441	18,790
Food & Beverage	35,245	22,000	48,085	35,713	19,169	26,387
Other Operated Departments	17,463	3,016	16,672	17,365	3,291	4,618
Rentals & Other Income	7,614	0	0	7,029	667	0
Total	78,522	46,566	79,772	78,855	34,568	49,794
DEPARTMENTAL INCOME	83,062	59,426	89,328	79,629	72,366	69,442
OPERATING EXPENSES						
Administrative & General	15,212	12,623	13,349	14,281	8,653	10,893
Marketing	12,434	2,877	9,079	11,198	5,441	7,427
Property Operations & Maintenance	4,814	5,549	6,778	4,645	6,587	5,447
Utilities	4,890	2,811	3,767	5,073	4,423	4,456
Total	37,350	23,861	32,974	35,197	25,103	28,224
HOUSE PROFIT	45,712	35,565	56,354	44,432	47,263	41,218
Management Fee	4,405	4,189	5,265	4,303	3,432	5,962
INCOME BEFORE FIXED CHARGES	41,308	31,377	51,090	40,129	43,831	35,256
FIXED EXPENSES						
Property Taxes	3,074	4,156	2,079	3,246	1,587	0
Insurance	940	1,139	4,603	1,104	8,080	2,971
Ground Lease	784	0	0	958	0	0
Equipment Lease	7,077	0	0	11,264	0	0
Miscellaneous Fixed Expenses	9,462	0	0	14,223	117	0
Reserve for Replacement	4,428	0	7,021	4,356	2,291	4,769
Total	17,904	5,295	13,704	22,928	12,075	7,740
NET INCOME	$23,404	$26,082	$37,386	$17,201	$31,756	$27,516

FIGURE 7-3 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2012	2011/12	2011/12	2011	2010	2012
Number of Rooms:	170 to 210	100 to 140	170 to 210	170 to 210	190 to 240	130
Days Open:	365	366	365	365	365	365
Occupancy:	61%	70%	74%	62%	57%	73%
Average Rate:	$336	$290	$283	$317	$326	$271
RevPAR:	$205	$204	$209	$195	$185	$198
REVENUE						
Rooms	$336.09	$290.31	$282.83	$317.04	$325.53	$271.22
Food	148.06	75.83	179.45	151.74	90.52	123.79
Beverage	48.92	31.31	71.95	46.20	38.16	0.00
Rental Income	26.58	11.84	0.00	27.77	0.00	0.00
Garage/Parking	100.24	0.00	0.00	98.48	0.00	0.00
Other	33.64	0.00	0.00	32.01	20.79	0.00
Other Operated Departments	160.47	11.84	99.66	158.25	21.01	24.76
Rentals & Other Income	33.42	2.20	(6.13)	31.21	39.43	27.73
Total	726.96	411.49	627.76	704.44	514.65	447.50
DEPARTMENTAL EXPENSES						
Rooms	81.88	83.66	55.74	83.33	55.06	70.52
Food & Beverage	158.57	85.41	178.51	158.74	92.26	99.03
Other Operated Departments	78.56	11.71	61.89	77.19	15.84	17.33
Rentals & Other Income	34.25	0.00	0.00	31.24	3.21	0.00
Total	353.27	180.78	296.14	350.50	166.37	186.88
DEPARTMENTAL INCOME	373.69	230.71	331.62	353.94	348.28	260.62
OPERATING EXPENSES						
Administrative & General	68.44	49.01	49.56	63.48	41.64	40.88
Marketing	55.94	11.17	33.71	49.77	26.19	27.88
Property Operations & Maintenance	21.66	21.54	25.16	20.65	31.70	20.44
Utilities	22.00	10.91	13.99	22.55	21.28	16.73
Total	168.03	92.63	122.41	156.44	120.82	105.93
HOUSE PROFIT	205.66	138.08	209.21	197.50	227.47	154.69
Management Fee	19.82	16.26	19.54	19.13	16.52	22.37
INCOME BEFORE FIXED CHARGES	185.84	121.81	189.66	178.37	210.95	132.32
FIXED EXPENSES						
Property Taxes	13.83	16.13	7.72	14.43	7.64	0.00
Insurance	4.23	4.42	17.09	4.91	38.89	11.15
Ground Lease	3.53	0.00	0.00	4.26	0.00	0.00
Equipment Lease	31.84	0.00	0.00	50.07	0.00	0.00
Miscellaneous Fixed Expenses	42.57	0.00	0.00	63.22	0.56	0.00
Reserve for Replacement	19.92	0.00	26.07	19.36	11.03	17.90
Total	80.55	20.56	50.87	101.91	58.12	29.05
NET INCOME	$105.29	$101.25	$138.79	$76.46	$152.83	$103.27

The comparables' departmental income ranged from 50.2% to 67.7% of total revenue. The comparable properties achieved a house profit ranging from 28.0% to 44.2% of total revenue. We will refer to the comparable operating data in our discussion of each line item, which follows later in this section of the report.

Fixed and Variable Component Analysis

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows inflation estimates made by economists at some noted institutions and corporations.

FIGURE 7-4 INFLATION ESTIMATES

Name	Firm	Previous Projections for December 2012 in June 2012	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) December 2013	June 2014	December 2014	June 2015
Paul Ashworth	Capital Economics	1.5 %	1.8 %	2.0 %	2.0 %	2.0 %
Nariman Behravesh	IHS Global Insight	1.2	1.6	1.9	1.6	1.5
Richard Berner/David Greenlaw	Morgan Stanley	—	1.3	1.5	1.6	—
Ram Bhagavatula	Combinatorics Capital	2.8	2.8	3.0	2.8	2.8
Jay Brinkmann	Mortgage Bankers Association	2.3	2.1	2.1	2.2	2.4
Michael Carey	Credit Agricole CIB	1.6	1.7	1.5	1.9	—
Joseph Carson	AllianceBernstein	2.5	2.5	2.7	3.0	3.0
Julia Coronado	BNP Paribas	2.0	2.1	2.1	2.3	2.2
Mike Cosgrove	Econoclast	2.0	2.3	2.5	2.5	2.5
Lou Crandall	Wrightson ICAP	2.1	2.3	2.1	2.2	2.3
J. Dewey Daane	Vanderbilt University	2.5	2.0	2.5	2.5	2.5
Douglas Duncan	Fannie Mae	1.7	1.5	1.9	2.0	2.0
Robert Dye	Comerica Bank	1.3	1.7	2.3	2.3	2.3
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	1.5	1.6	1.6	1.8	—
Ethan Harris	Bank of America Securities-Merrill Lynch	1.4	1.8	1.9	1.5	—
Maury Harris	UBS	1.6	1.9	2.5	2.5	—
Jan Hatzius	Goldman, Sachs & Co.	1.8	2.0	1.6	1.8	2.0
Tracy Herrick	Avidbank	2.6	3.6	3.8	4.9	5.5
Stuart Hoffman	PNC Financial Services Group	1.9	2.4	2.5	2.5	2.4
Gene Huang	FedEx Corp.	1.9	2.2	2.3	2.3	2.4
William B. Hummer	Wintrust Wealth Management	2.0	2.0	1.9	2.1	2.1
Bruce Kasman	JP Morgan Chase & Co.	1.4	1.4	1.7	1.7	—
Joseph LaVorgna	Deutsche Bank Securities, Inc.	2.2	2.5	2.5	2.5	2.8
Edward Leamer/David Shulman	UCLA Anderson Forecast	1.7	1.5	2.0	2.4	—
Don Leavens/Tim Gill	NEMA Business Information Services	1.4	1.3	1.9	1.8	1.7
John Lonski	Moody's Investors Service	1.7	1.9	2.1	2.2	2.0
Dean Maki	Barclays Capital	2.0	2.6	2.5	2.5	—
Aneta Markowska	Societe Generale	1.4	1.9	1.8	1.9	2.0
Jim Meil/Arun Raha	Eaton Corp.	1.7	1.9	2.2	2.0	1.9
Michael P. Niemira	International Council of Shopping Centers	2.0	3.2	3.2	3.2	3.0
Jim O'Sullivan	High Frequency Economics	—	2.5	2.6	2.7	2.7
Nicholas S. Perna	Perna Associates	1.8	2.0	2.1	2.1	2.2
Dr. Joel Prakken/Chris Varvares	Macroeconomic Advisers	2.0	1.5	1.8	1.8	—
John Ryding/Conrad DeQuadros	RDQ Economics	1.9	2.5	—	—	—
Ian Shepherdson	Pantheon Macroeconomic Advisors	2.4	2.2	2.5	2.5	2.5
John Silvia	Wells Fargo & Co.	1.6	2.0	2.1	2.2	2.4
Allen Sinai	Decision Economics, Inc.	2.2	2.6	2.5	2.3	3.0
James F. Smith	Parsec Financial Management	1.0	1.0	0.8	1.0	1.1
Sean M. Snaith	University of Central Florida	0.9	1.6	1.9	1.8	1.7
Sung Won Sohn	California State University	1.4	1.8	1.9	2.2	2.1
Neal Soss	CSFB	1.2	1.7	2.1	2.2	—
Stephen Stanley	Pierpont Securities	1.7	2.5	2.7	2.9	3.2
Susan M. Sterne	Economic Analysis Associates Inc.	3.0	2.7	2.5	2.4	2.6
Diane Swonk	Mesirow Financial	1.7	1.4	1.9	1.9	2.0
Carl Tannenbaum	The Northern Trust	—	1.7	1.8	1.8	—
Bart van Ark	The Conference Board	1.6	2.1	2.2	2.3	2.4
Brian S. Wesbury/Robert Stein	First Trust Advisors, L.P.	2.5	2.8	3.0	3.3	3.5
William T. Wilson	Skolkovo Institute for Emerging Market Studies	1.2	1.5	1.8	2.0	2.0
Lawrence Yun	National Association of Realtors	—	2.9	3.6	4.1	3.3
Ellen Zentner	Nomura Securities International	1.4	1.5	1.6	1.6	—
		1.8 %	2.0 %	2.2 %	2.3 %	2.4 %
	Actual Inflation for 2012	1.7 %				

Source: wsj.com, January 21, 2013

As the preceding table indicates, the financial analysts who were surveyed in January of 2013 anticipated inflation rates ranging from 1.0% to 3.6% (on an annualized basis) for December 2013; the average of these data points was 2.0%. The same group expects a slightly higher annualized 2.2% inflation rate for June

2014. These rates are lower than the inflation rate averages for December 2014 and June 2015, shown at 2.3% and 2.4%, respectively.

As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI-U). Because the value of real estate is predicated on cash flows over a relatively long period, inflation should be considered from a long-term perspective.

FIGURE 7-5 NATIONAL CONSUMER PRICE INDEX (ALL URBAN CONSUMERS)

Year	National Consumer Price Index	Percent Change from Previous Year
2002	179.9	—
2003	184.0	2.3 %
2004	188.9	2.7
2005	195.3	3.4
2006	201.6	3.2
2007	207.3	2.8
2008	215.3	3.8
2009	214.5	-0.4
2010	218.1	1.6
2011	224.9	3.1
2012	229.6	2.1
Average Annual Compounded Change		
2002 - 2012:		2.5 %
2007 - 2012:		2.1

Source: Bureau of Labor Statistics

Between 2002 and 2012, the national CPI increased at an average annual compounded rate of 2.5%; from 2007 to 2012, the CPI rose by a slightly lower average annual compounded rate of 2.1%. In 2012, the CPI rose by 2.1%, a decrease from the level of 3.1% recorded in 2011.

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied underlying inflation rates of 2.5%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2012. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Summary of Projections

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of income and expense. The following table presents a detailed forecast through the fifth projection year, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on January 1, 2017, expressed in inflated dollars for each year.

IGURE 7-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2017 (Calendar Year)				2018			
Number of Rooms:	130				130			
Occupancy:	67%				69%			
Average Rate:	$298.70				$323.85			
RevPAR:	$200.13				$223.46			
Days Open:	365				365			
Occupied Rooms:	31,792	%Gross	PAR	POR	32,741	%Gross	PAR	POR
REVENUE								
Rooms	$9,496	58.8 %	$73,046	$298.70	$10,603	60.2 %	$81,562	$323.85
Food & Beverage	4,664	28.9	35,880	146.72	4,910	27.9	37,766	149.95
Other Operated Departments	970	6.0	7,459	30.50	1,007	5.7	7,747	30.76
Rentals & Other Income	1,027	6.4	7,861	32.15	1,084	6.2	8,339	33.11
Total Revenues	16,152	100.0	124,246	508.06	17,604	100.0	135,413	537.67
DEPARTMENTAL EXPENSES *								
Rooms	2,739	28.8	21,066	86.14	2,853	26.9	21,944	87.13
Food & Beverage	3,866	82.9	29,741	121.62	4,020	81.9	30,925	122.79
Other Operated Departments	691	71.2	5,314	21.73	713	70.8	5,487	21.79
Total	7,296	45.2	56,121	229.49	7,586	43.1	58,355	231.71
DEPARTMENTAL INCOME	8,856	54.8	68,125	278.57	10,018	56.9	77,058	305.97
UNDISTRIBUTED OPERATING EXPENSES								
Administrative & General	1,600	9.9	12,309	50.33	1,670	9.5	12,848	51.02
Marketing	1,091	6.8	8,393	34.32	1,139	6.5	8,760	34.78
Prop. Operations & Maint.	800	5.0	6,155	25.17	835	4.7	6,424	25.51
Utilities	655	4.1	5,036	20.59	683	3.9	5,256	20.87
Total	4,146	25.8	31,892	130.41	4,328	24.6	33,289	132.18
HOUSE PROFIT	4,710	29.0	36,233	148.16	5,690	32.3	43,769	173.79
Management Fee	808	5.0	6,212	25.40	880	5.0	6,771	26.88
INCOME BEFORE FIXED CHARGES	3,903	24.0	30,021	122.76	4,810	27.3	36,998	146.91
FIXED EXPENSES								
Property Taxes	0	0.0	0	0.00	0	0.0	0	0.00
Insurance	448	2.8	3,444	14.08	461	2.6	3,547	14.09
Reserve for Replacement	323	2.0	2,485	10.16	528	3.0	4,062	16.13
Total	771	4.8	5,929	24.24	989	5.6	7,610	30.22
NET INCOME	$3,132	19.2 %	$24,092	$98.52	$3,821	21.7 %	$29,389	$116.69

	2019				Stabilized			
Number of Rooms:	130				130			
Occupancy:	72%				73%			
Average Rate:	$333.57				$343.58			
RevPAR:	$240.17				$250.81			
Days Open:	365				365			
Occupied Rooms:	34,164	%Gross	PAR	POR	34,639	%Gross	PAR	POR
REVENUE								
Rooms	$11,396	60.5 %	$87,662	$333.57	$11,901	60.6 %	$91,546	$343.58
Food & Beverage	5,219	27.7	40,149	152.77	5,432	27.7	41,783	156.81
Other Operated Departments	1,050	5.6	8,080	30.75	1,086	5.5	8,357	31.36
Rentals & Other Income	1,165	6.2	8,962	34.10	1,217	6.2	9,359	35.13
Total Revenues	18,831	100.0	144,853	551.19	19,636	100.0	151,045	566.88
DEPARTMENTAL EXPENSES *								
Rooms	2,988	26.2	22,982	87.45	3,094	26.0	23,802	89.33
Food & Beverage	4,199	80.5	32,303	122.92	4,345	80.0	33,426	125.45
Other Operated Departments	737	70.2	5,672	21.58	760	70.0	5,850	21.95
Total	7,924	42.1	60,957	231.95	8,200	41.8	63,078	236.73
DEPARTMENTAL INCOME	10,906	57.9	83,896	319.24	11,436	58.2	87,967	330.14
UNDISTRIBUTED OPERATING EXPENSES								
Administrative & General	1,736	9.2	13,357	50.82	1,794	9.1	13,800	51.79
Marketing	1,184	6.3	9,107	34.65	1,223	6.2	9,409	35.31
Prop. Operations & Maint.	868	4.6	6,678	25.41	897	4.6	6,900	25.90
Utilities	710	3.8	5,464	20.79	734	3.7	5,645	21.19
Total	4,499	23.9	34,606	131.68	4,648	23.6	35,753	134.18
HOUSE PROFIT	6,408	34.0	49,290	187.56	6,788	34.6	52,214	195.96
Management Fee	942	5.0	7,243	27.56	982	5.0	7,552	28.34
INCOME BEFORE FIXED CHARGES	5,466	29.0	42,047	160.00	5,806	29.6	44,661	167.62
FIXED EXPENSES								
Property Taxes	0	0.0	0	0.00	0	0.0	0	0.00
Insurance	475	2.5	3,654	13.90	489	2.5	3,764	14.12
Reserve for Replacement	753	4.0	5,794	22.05	785	4.0	6,042	22.68
Total	1,228	6.5	9,448	35.95	1,275	6.5	9,805	36.80
NET INCOME	$4,238	22.5 %	$32,599	$124.05	$4,531	23.1 %	$34,856	$130.82

	2021			
Number of Rooms:	130			
Occupancy:	73%			
Average Rate:	$353.88			
RevPAR:	$258.34			
Days Open:	365			
Occupied Rooms:	34,639	%Gross	PAR	POR
REVENUE				
Rooms	$12,258	60.6 %	$94,292	$353.88
Food & Beverage	5,595	27.7	43,036	161.52
Other Operated Departments	1,119	5.5	8,607	32.30
Rentals & Other Income	1,253	6.2	9,640	36.18
Total Revenues	20,225	100.0	155,576	583.88
DEPARTMENTAL EXPENSES *				
Rooms	3,187	26.0	24,516	92.01
Food & Beverage	4,476	80.0	34,429	129.21
Other Operated Departments	783	70.0	6,025	22.61
Total	8,446	41.8	64,970	243.84
DEPARTMENTAL INCOME	11,779	58.2	90,606	340.05
UNDISTRIBUTED OPERATING EXPENSES				
Administrative & General	1,848	9.1	14,213	53.34
Marketing	1,260	6.2	9,691	36.37
Prop. Operations & Maint.	924	4.6	7,107	26.67
Utilities	756	3.7	5,815	21.82
Total	4,787	23.6	36,826	138.21
HOUSE PROFIT	6,991	34.6	53,780	201.84
Management Fee	1,011	5.0	7,779	29.19
INCOME BEFORE FIXED CHARGES	5,980	29.6	46,001	172.64
FIXED EXPENSES				
Property Taxes	0	0.0	0	0.00
Insurance	504	2.5	3,876	14.55
Reserve for Replacement	809	4.0	6,223	23.36
Total	1,313	6.5	10,099	37.90
NET INCOME	$4,667	23.1 %	$35,902	$134.74

*Departmental expenses are expressed as a percentage of departmental revenues.

operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject property.

The comparable operating statements illustrate other operated departments revenue ranging from 4.1% to 49.9% of rooms revenue and $11.84 to $160.47 per occupied room. We forecast the proposed subject property's other operated departments collective revenues to stabilize at 9.1% of rooms revenue or $31.36 per occupied room by the stabilized year, 2020.

Rentals & Other Income (net)

Rentals and other income is always a "net" category. As such, the items that should be representative of this category are the resort fee to be charged, and the commissions the hotel will earn from referring guests to outside vendors for sailing excursions, boat rentals, and fishing. A significant portion of this revenue is the resort fee.

Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject property. Rentals and other income revenue for the comparables ranged from -2.2% to 12.1% of rooms revenue or $-6.13 to $39.43 on a per-occupied-room basis.

We have included a resort fee of $30.00 per occupied room based on a review of its most direct competitors. The Ritz-Carlton charges a resort fee of $58.00 per room per night; the Marriott Frenchman's Reef charges $35.00 per room per night; and the Westin charges $40.00 per room per night. The resort fee would include the following: access to the fitness center, use of non-motorized water sports, beach chairs, towels and service, unlimited domestic calls, self-parking; and complimentary internet.

Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. We forecast the proposed subject property's rentals and other income to stabilize at $35.13 per occupied room by the stabilized year, 2020.

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy and managers can generally scale the level of service staff on hand to meet an expected occupancy level, much of a hotel's payroll is fixed. A base level of front desk personnel, housekeepers, and supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. While guest supplies vary 100% with occupancy, linens and other operating expenses are only slightly affected by volume.

The comparables illustrated rooms expense ranging between 16.9% and 28.8% of rooms revenue; on a per-occupied-room basis, the range was between $55.06 and $83.66. We have projected rooms expense for the proposed subject property at 28.8% in the first year (or $86.14 per occupied room), stabilizing at 26.0% in 2020 (or $89.33 per occupied room). The proposed subject property's rooms department expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point.

Food and Beverage Expense

The proposed subject property's food and beverage operation is expected to be efficiently managed and operate at an expense level that is in line with other comparable operations. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject property, we have positioned the subject's food and beverage expense at 80% of departmental revenue. The comparables range from a low of 71% to a high of 80.5%.

We have projected food and beverage expense for the proposed subject property at 82.9% in the first year (or $121.62 per occupied room), stabilizing at 80% in 2020 (or $125.45 per occupied room).

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories. This was previously discussed in this chapter. The comparables illustrated other operated departments expense ranging from $11.71 to $78.56 per occupied room. We have projected a stabilized expense ratio of 70% in 2020. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject property.

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume.

As a percentage of total revenue, the comparable operations indicate an administrative and general expense range from 7.9% to 11.9%, or $8,653 to $15,212 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject property, we have positioned the administrative and general expense level at a market- and property-supported level. In the first projection year, we have projected administrative and general expense for the proposed subject property to be $12,309 per available room, or 9.9% of total revenue. By the 2020 stabilized year, these amounts change to $13,800 per available room and 9.1% of total revenue.

Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately.

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

As a percentage of total revenue, the comparable operations indicate a marketing expense range from 2.7% to 7.7%, or $2,877 to $12,434 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject property, we have positioned the marketing expense level at a market- and property-supported level. In the first projection year, we have projected marketing expense for the proposed subject property to be $8,393 per available room, or 6.8% of total revenue. By the 2020 stabilized year, these amounts change to $9,409 per available room and 6.2% of total revenue.

Franchise Fee

As previously discussed, the subject is expected to be brand operated; as such, no franchise agreement will exist and no franchise fees are expected to be required throughout the ten-year forecast period.

Property Operations and Maintenance

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

As a percentage of total revenue, the comparable operations indicate a property operations and maintenance expense range from 2.9% to 6.2%, or $4,645 to $6,778 per available room. We expect the proposed subject property's maintenance operation to be well managed, and expense levels should stabilize at a typical level for a property of this type. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, we have projected property operations and maintenance expense for the proposed subject property to be $6,155 per available room, or 5.0% of total revenue. By the 2020 stabilized year, these amounts change to $6,900 per available room and 4.6% of total revenue.

Utilities Expense

The utilities consumption of a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel utilities are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking.

As a percentage of total revenue, the comparable operations indicate a utilities expense range from 2.2% to 4.1%, or $2,811 to $5,073 per available room. The changes in this utilities line item through the projection period are a result of the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, we have projected utilities expense for the proposed subject property to be $5,036 per available room, or 4.1% of total revenue. By the 2020 stabilized year, these amounts change to $5,645 per available room and 3.7% of total revenue.

Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are often based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2% to 4% of total revenue, incentive fees are deal-specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Total management fees for the proposed subject property have been forecast at 5.0% of total revenue.

Property Taxes

We have assumed that the property would be exempt from real property taxes. Should the property not benefit from this assumption, we note that it will have a significant impact on the performance of the proposed development.

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage. Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

Based on comparable data and the structural attributes of the proposed project, we project the proposed subject property's insurance expense at $3,764 per available room by the stabilized year (positioned at $3,000 on a per-available-room basis in base-year dollars). This forecast equates to 2.5% of total revenue on a stabilized basis. In subsequent years, this amount is assumed to increase in tandem with inflation.

Reserve for Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but affect an owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent findings of the study were published in a report in 2007.[8] Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year and depend upon both the actual and effective ages of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Based on the results of this study, our review of the subject asset and comparable lodging facilities, and our industry expertise, we estimate that a reserve for replacement of 4% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment. This amount is ramped up during the initial projection period.

Conclusion

In conclusion, our analysis reflects a profitable operation, with net income expected to total 23.1% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms revenue, with a secondary portion derived from other income sources. On the cost side, departmental expenses total 41.8% of revenue by the stabilized year, while undistributed operating expenses total 23.6% of total revenues; this assumes that the property will be operated

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[8] The International Society of Hotel Consultants, CapEx 2007: A Study of Capital Expenditures in the U.S. Hotel Industry.

competently by a well-known hotel operator. After a 5.0% of total revenues management fee, and 6.5% of total revenues in fixed expenses, a net income ratio of 23.1% is forecast by the stabilized year.

8. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a market study of the proposed subject property; this is not an appraisal report.

2. This report is to be used in whole and not in part.

3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.

4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would impact the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.

5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.

6. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.

7. We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described, and that no encroachment will exist.

8. All information, financial operating statements, estimates, and opinions obtained from parties not employed by CHR Consulting Services, Inc. are assumed to be true and correct. We can assume no liability resulting from misinformation.

9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.

10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all

licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.

11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.

12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.

13. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.

14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.

15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.

16. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.

17. The financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.

18. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.

19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity,

most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.

22. This study was prepared by CHR Consulting Services, Inc.. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of CHR Consulting Services, Inc. as employees, rather than as individuals.

9. Certification

The undersigned hereby certify that, to the best of our knowledge and belief:

1. the statements of fact presented in this report are true and correct;
2. he reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Donald C. Stephens Jr. and Kathy Conroy, MAI personally inspected the property described in this report;
9. Donald C. Stephens Jr. provided significant assistance to Kathy Conroy, MAI, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report; Donald C. Stephens Jr. and Kathy Conroy, MAI, have not performed a market study or feasibility study on this property within the past three years;
10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

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11. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and

12. as of the date of this report, Donald C. Stephens Jr. has completed the Standards and Ethics Education Requirement of the Appraisal Institute for Candidate Members; and as of the date of this report, Kathy Conroy, MAI has completed the requirements of the continuing education program of the Appraisal Institute.

Donald C. Stephens Jr., Vice President
dstephens@hvs.com, +1 (407) 405-4363
State-registered trainee appraiser RI4815
Candidate for Designation

Kathy Conroy, MAI
CEO-Director/Partner
kconroy@hvs.com, +1 (305) 378-0404 ext. 1011
State-certified general real estate appraiser RZ741

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Penetration Explanation

Let us illustrate the penetration adjustment with an example.

A market has three existing hotels with the following operating statistics:

BASE-YEAR OCCUPANCY AND PENETRATION LEVELS

Property	Number of Rooms	Fair Share	Commercial	Meeting and Group	Leisure	Occupancy	Penetration
Hotel A	100	23.5 %	60 %	20 %	20 %	75.0 %	100.8 %
Hotel B	125	29.4	70	10	20	65.0	87.4
Hotel C	200	47.1	30	60	10	80.0	107.5
Totals/Average	**425**	**100.0 %**	**47 %**	**38 %**	**15 %**	**74.4 %**	**100.0 %**

Based upon each hotel's room count, market segmentation, and annual occupancy, the annual number of room nights accommodated in the market from each market segment can be quantified, as set forth below.

MARKET-WIDE ROOM NIGHT DEMAND

Market Segment	Annual Room Night Demand	Percentage of Total
Commercial	54,704	47.4 %
Meeting and Group	43,481	37.7
Leisure	17,246	14.9
Total	**115,431**	**100.0 %**

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The table below sets forth the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

1) calculating the hotel's market share % of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and

2) dividing the hotel's commercial market share % by the hotel's fair share %.

The following table sets forth each hotel's fair share, commercial market share, and commercial penetration factor.

COMMERCIAL SEGMENT PENETRATION FACTORS

Property	Number of Rooms	Fair Share	Commercial Capture	Commercial Market Share	Commercial Penetration
Hotel A	100	23.5 %	16,425	30.0 %	127.6 %
Hotel B	125	29.4	20,759	37.9	129.0
Hotel C	200	47.1	17,520	32.0	68.1
Totals/Average	**425**	**100.0 %**	**54,704**	**100.0 %**	**100.0 %**

If a new 100-room hotel enters the market, the fair share of each hotel changes because of the new denominator, which has increased by the 100 rooms that have been added to the market.

COMMERCIAL SEGMENT FAIR SHARE

Property	Number of Rooms	Fair Share
Hotel A	100	19.0 %
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
Total	**525**	**100.0 %**

The new hotel's penetration factor is projected for its first year of operation. It is estimated that the hotel will capture (penetrate) only 85% of its fair share as it establishes itself in the market. The new hotel's market share and room night capture can be calculated based upon the hotel's estimated penetration factor. When the market share of the existing hotels and that of the new hotel are added up, they no longer equal 100% because of the new hotel's entry into the market. The market share of each hotel must be adjusted to reflect the change in the denominator that comprises the sum of each hotel's market share.

This adjustment can be mathematically calculated by dividing each hotel's market share percentages by the new denominator of 97.1%. The resulting calculations reflect each hotel's new adjusted market share. The sum of the adjusted market shares equals 100%, indicating that the adjustment has been successfully completed. Once the market shares have been calculated, the penetration factors can be recalculated (adjusted market share divided by fair share) to derive the adjusted penetration factors based upon the new hotel's entry into the market. Note that each existing hotel's penetration factor actually increases because the new hotel is capturing (penetrating) less than its fair share of demand.

COMMERCIAL SEGMENT PROJECTIONS (YEAR 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	127.6 %	24.3 %	25.0 %	131.4 %	13,688
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Totals/Average	**525**	**100.0 %**		**97.1 %**	**100.0 %**		**54,704**

In its second year of operation, the new hotel is projected to penetrate above its fair share of demand. A penetration rate of 130% has been chosen, as the new hotel is expected to perform at a level commensurate with Hotel A and Hotel B in this market segment. The same calculations are performed to adjust market share and penetration factors. Note that now the penetration factors of the existing hotels decline below their original penetration rates because of the new hotel's above-market penetration. Also, note that after the market share adjustment, the new hotel retains a penetration rate commensurate with Hotel A and Hotel B, though the penetration rates of all three hotels have declined by approximately nine percentage points because of the reapportionment of demand.

Once the market shares of each hotel have been adjusted to reflect the entry of the new hotel into the market, the commercial room nights captured by each hotel may be projected by multiplying the hotel's market share percentage by the total commercial room-night demand. This calculation is shown below.

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COMMERCIAL SEGMENT PROJECTIONS (YEAR 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	131.4 %	25.0 %	23.1 %	121.5 %	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Totals/Average	**525**	**100.0 %**		**108.1 %**	**100.0 %**		**54,704**

JDG **Jaredian Design Group** Architects, Engineers and Construction Managers

5333 Raadets Gade, Suite 14, St. Thomas, U. S. Virgin Islands 00802-6900 • Post Office Box 6218, St. Thomas, U. S. Virgin Islands 00804-6218
Telephone: (340) 777.1600 • Fax: (340) 777.1601 • E-mail: jdg@vipowernet.net • Website: www.jaredian.com

March 20, 2015

Denise Hobson
Virgin Islands 31st Legislature
Capitol Building
St. Thomas, U. S. Virgin Islands 00802

Via E-mail: **dhobson@legvi.org; denhob2003@yahoo.com**

RE: **ZONING REQUEST FOR PARCEL REM. 10A ESTATE EMMAUS, ST. JOHN, U. S. VIRGIN ISLANDS FOR THE T-REX MIXED-USE DEVELOPMENT PROJECT**

Dear Ms. Hobson,

Enclosed, herewith are the most current application, drawings and supporting documents regarding the Request For Rezoning by the Moravian Church V. I. Conference (herein after referred to as Moravian Conference). The Moravian Conference is seeking to rezone Parcel Rem. 10A Estate Emmaus, St. John, U. S. Virgin Islands. Both parcels are owned by the Moravian Conference and are leased by T-Rex, St. John, LLC (T-Rex), for the purposes of developing this mixed-use project.

We have also included former transmittal letters to the past Senator Shawn-Michael Malone, and the current Senator Clifford F. Graham that include these same documents. Our review on the Virgin Islands Legislature's website regarding this zoning application has an earlier and outdated submission by the Department of Planning and Natural Resources (DONR) – Division of Comprehensive and Coastal Zone Planning (CCZP) from 2012. DPNR has the most current application and drawings, but transmitted the earlier application and drawings in error. We have had a very extensive Public Information Process that has changed the design over time. As such, the design and application changed as well. In speaking with Ms. Leia LaPlace of CCZP, she has approved that we assist the V. I. Legislature by sending you the most current copies of application and drawings. I must point out, though, the DPNR Report included on your website is current and does not need to be changed.

Should you have any questions or comments, please feel free to contact me at 777-1600.

Very truly yours,

JAREDIAN DESIGN GROUP

John P. Woods, AIA, NCARB
Principal

Encl: Transmittal Letters, Zoning Change/Request, Zoning Application, Rev. Zoning Drawings, Registered Maps/Parcel IDs, Deed, Adjacent Landowners Certification, HVS Market Study

Cc via E-mail: Leia LaPlace, DPNR/Division of Comprehensive and Coastal Zone Planning
Rory Calhoun, JD, MBA, Managing Partner, T-Rex, St. John, LLC